105 439 In regard to foreign trade, the predominant share of the United Kingdom and Germany will at once attract attention. For the Baltic States the United Kingdom represents an overwhelmingly important export market for dairy produce, bacon, and timber—almost as important relatively as the British market is to Denmark. The same, though to a lesser degree, is true of Germany. For both these countries the Baltic States offer a valuable market for manufactured goods. The struggle for this market has been keenly contested, with the advantage in favour of Germany until 1934, when the new British Trade Agreements redressed the balance in favour of the United Kingdom.

105 642 In the political sphere, a phenomenon which cannot escape attention is the transformation from the ultra-democratic Constitutions promulgated in 1920 to dictatorial régimes, which appear to be groping towards some new organization of the State upon a corporative basis. In Estonia, however, since the promulgation of the new Constitution, an evident effort is being made to return to democratic government.

121 The economic chapters have been specially prepared for the Information Department, and have been divided into two main parts, the first dealing with the structure and development of the three States up to the crisis of 1931, the second describing the effects of the crisis upon their economy and their successful efforts to fight their way back to recovery.

CHATHAM HOUSE,

May 9, 1938.

including Finland and Poland; but the policy which they adopted in dealing with it varied according to their respective geographical positions and their different political and economic connexions with pre-War Russia, as well as to their special affinities with, or revulsions from, other Powers or one another.

Estonia and Latvia had most to fear from the U.S.S.R. and most to gain from a close Baltic Union, partly on account of their common frontiers with the U.S.S.R., which exposed them to the infiltration of Communism to a dangerous extent, but chiefly because their territory had formerly contained the main outlets of Russian trade with the West. The old Russian ports of Riga, Windau (Ventspils), and Libau (Liepāja) were now Latvian, while Reval (Tallinn), Pernau (Pārnu), and Baltic Port (Paldiski) had fallen to Estonia. Of these, Libau and Baltic Port had been Tsarist Russia's principal naval bases, while Riga had been her third largest Western port, ranking after St. Petersburg and Odessa. All of them were linked up by railways with Great Russia.[1] The serious economic consequences for the new Republics, even more than for the U.S.S.R., of their political separation from their natural hinterland, are described elsewhere.[2]

Lithuania, who (after 1920) had no common frontier with the U.S.S.R., had less cause for anxiety in that direction, and was, therefore, relatively indifferent to the advantages of a Baltic Union. In any case successive Governments were preoccupied by prolonged disputes with Poland over Vilna, and later with Germany over Memel.[3] The Vilna dispute, in particular, prevented her for a long time from participating in any form of Baltic *bloc*, since the other interested Powers refused to sign any pact which might involve them in a conflict with Poland, while Lithuania herself refused to sign one from which that possibility had been eliminated.[4]

Finland[5] also, owing to her geographical position, was spared extreme fear of the Soviet Union, since even if the latter were to become involved in a war with Poland or Germany, Finnish territory and neutrality would not necessarily be violated. Moreover, a large proportion of the population, and particularly of the aristocracy, was Swedish, and there was a thriving Swedish political party; in consequence Finland showed a strong tendency to orientate towards the Scandinavian rather than towards the Baltic States, and a marked

[1] See map.

[2] See below, pp. 192–4.

[3] These disputes are treated in detail in Section VI, p. 89.

[4] Latvia's attitude towards the Vilna dispute was complicated by the fact that the trunk railway connecting the port of Liepāja with Romny, in Russia, passed through Lithuanian territory before entering Poland, so that her trade with that country, as well as with Russia, was affected by the closing of the Lithuanian-Polish frontier.

[5] Finland's foreign policy is dealt with in more detail in the handbook in this series dealing with the Scandinavian States.

Seventh Baltic Conference at Warsaw in February 1924, however, a proposal for joint action at the next Assembly was opposed by Poland, while a proposed treaty of arbitration was abandoned owing to Finnish opposition. 648

In the meantime progress was made towards the closer union of the three Baltic States proper, or at least of Estonia and Latvia. The preliminary agreement of 1921 between these two countries was now consolidated by a ten-year Treaty of Defensive Alliance,[1] signed on November 1, 1923, which provided that the two countries should concert together and give mutual political and diplomatic support in their international relations, that if either party were attacked on its existing frontiers without provocation the other should immediately come to its assistance, and that all disputes between them should be referred either to the Permanent Court of International Justice or to some other form of arbitration. Each party also undertook not to enter into an alliance with a third party without the other's consent. At the same time, a preliminary treaty establishing an economic and Customs union was signed, containing a clause whereby each party enjoyed all the rights and privileges which had been or might in future be granted to other nations, and providing among other things for the establishment of a mixed commission which should complete the work of co-ordinating tariffs and tariff legislation within a period of three months.[2] 439 ● 648

At the beginning of 1925 it seemed as if Poland's policy of uniting the north-eastern States under her leadership might be successful. At a conference of the four States at Helsinki in January, with Lithuania as an observer, the three smaller Powers, with the impression left by a serious Communist rising in Estonia in the previous December still fresh in their minds, proved more than usually sensible of the Russian danger, and therefore more disposed to conciliate Poland. A general Convention[3] was concluded, and subsequently ratified on September 7, 1925, by which the signatories undertook to submit to conciliation or arbitration any disputes arising between them which could not be solved by diplomatic procedure, with the exception of those relating to the territorial status of the contracting parties, as well as of disputes 'the legal nature of which makes them 648

[1] *League of Nations Treaty Series*, vol. xxiii, p. 82. The Treaty was ratified on February 21, 1924. At the end of the ten-year term either party might denounce it on giving one year's notice; as neither has done so, the Treaty is still in force.

[2] This preliminary agreement was replaced by a definitive treaty on February 5, 1927, which appointed a mixed commission not only to draft a joint Customs tariff and co-ordinate the existing tariff legislation, but also to unify the laws relating to taxation, trade marks, labour legislation and so forth, to co-ordinate the policy of the central banks, and to unify trade treaties with other countries; for text see *League of Nations Treaty Series*, vol. lxii, p. 319. In actual fact, however, these treaties have never been implemented.

[3] For text see League of Nations Document, C. 34. 1926 (*Arbitration and Security*), p. 121.

1: Anonymous U-4 (no date) 1938 RB1 Baltic States RB]

648 understanding with the U.S.S.R. and consented to initial a Pact of Non-aggression on March 9, 1927; in doing so, however, actual signature was made dependent on the simultaneous signature of a convention of conciliation providing for a neutral chairman, as well as on Soviet assent to a unilateral declaration of Latvia's fidelity to her
●[439] obligations under the League Covenant. In the following June Latvia concluded a five-year commercial treaty[1] with the U.S.S.R. which aroused strong criticism in Estonia—already resentful at Latvia's independent action in the matter of the non-aggression pact—on the ground that it rendered unworkable the Estonian-Latvian Customs Union. The trade agreement was also criticized by the Latvian industrialists, who complained that it granted privileges to the Soviet commercial organizations in Latvia which were not accorded to Latvian citizens in the Soviet Union, and pointed out that the diplomatic immunity conceded to the members and premises of the Soviet Trade Agency had already been grossly abused in other countries.

Thus, the efforts of the Soviet Government during the years 1925–7 were rewarded by a fair measure of success in so far as Lithuania and Latvia were concerned, although the Soviet-Latvian Non-aggression Pact was not actually signed. Moreover, the U.S.S.R. had concluded agreements with Latvia on July 19, 1926, and with Estonia on August 8, 1927, laying down the procedure for the settlement of frontier disputes. In reality, however, the situation at the end of this period had not changed to any great degree, and it was not until early in 1932 that Finland, Estonia, and Latvia felt sufficiently confident of Soviet good faith to conclude the much-desired treaties of non-aggression.

The Litvinov Protocol, 1928–9. In the meantime the Soviet Government directed its energies towards persuading the various States on its western borders to anticipate regionally the general application of the Pact of Paris for the Renunciation of War, which had been signed on August 27, 1928 by fifteen States, including the U.S.S.R., but which was not to come into force until after the deposition of ratification by all the signatories. In a Note to the Polish Government on December 29, 1928, M. Litvinov enclosed a draft protocol providing that the General Treaty should come into force, as between the two countries, immediately after its ratification by their respective legislative bodies, and that it should be open to adherence by any other State. A similar Note was addressed to the Lithuanian Government, which accepted the proposal and communicated it to

[1] For text see *League of Nations Treaty Series*, vol. lxviii, p. 321. A new commercial treaty was concluded between Latvia and the U.S.S.R. on December 4, 1933; for text see *League of Nations Treaty Series*, vol. cxlviii, p. 114.

648 on May 16, dealt the final death-blows to all hope of German collaboration in a multilateral agreement. Franco-British proposals for a renewal of discussions in June were met by a statement that Germany considered her undertaking of April 12 to have lapsed in consequence of the Franco-Soviet Pact, and that her commitments would be limited in future to the offer of bilateral pacts of non-aggression. Finally, the whole question of an Eastern Locarno was pushed into the background by the Italo-Abyssinian dispute.

The Completion of the 'Little Baltic' Union, 1934–5. As early as September 1922 the Latvian Socialist leader, M. Cielens, apprehensive of the growing strength of Germany, had urged the conclusion of a defensive alliance between Latvia, Estonia, and Lithuania, while the spring of 1933 saw the resuscitation by M. Lindhagen, formerly Mayor of Stockholm, of the old idea of a Scandinavian-Baltic *bloc* which should include Poland. In May the Swedish Foreign Minister, M. Sandler, went so far as to state that such a pact was a desirable goal, provided that it was not directed against any other Power.

648
●439 Moreover, the evil effects of the world economic crisis on the trade of the Baltic States had prompted Estonia in February 1932, and Latvia in January 1933, to propose a Customs union between Lithuania and themselves. The long delay in the realization of all such schemes may be explained, in part, by the fact that the economic systems of the three countries are in no sense complementary to one another, since they are all predominantly agricultural in character. Lithuania, in particular, was more interested in the establishment of satisfactory trade regulations with Germany and Great Britain than with her Baltic neighbours; while even the Estonian-Latvian Customs Union had never been carried out in practice. After an economic conference of the three States in September 1933, however, it was decided to set up a permanent commission to prepare the way for the co-ordination of monetary policies and the increase of reciprocal trade preferences.

648 The conclusion of the German-Polish Agreement in January 1934, and Germany's refusal shortly afterwards to participate as a guarantor in the Baltic security pact proposed by the Soviet Government, finally precipitated a *rapprochement* between Estonia, Latvia, and Lithuania. The Latvian-Estonian Treaty of Alliance concluded in 1923 was now strengthened by a Treaty of Defensive Alliance,[1] signed on February 17, 1934, and modelled on the recently concluded Balkan Pact, as well as on the Pact of Organization signed by the Little Entente in February 1933. The new agreement provided for the joint representation of the two signatories at all international

[1] For text see *League of Nations Treaty Series*, vol. cl, p. 104.

with Germany, was suppressed. In Lithuania the Kaunas *putsch* of June 1934 was commonly attributed to German inspiration, while in April 1936 several persons were arrested for smuggling across the Lithuanian-East Prussian frontier large quantities of anti-Lithuanian propaganda printed in Germany, inciting the Lithuanian peasants to refuse the payment of taxes. In Estonia a 'monster-trial' was held in August 1936 of 154 Estonian members of the Liberators' movement, charged with organizing a *putsch* under instructions from Germany. It is impossible to say how far German propaganda and financial assistance were really responsible for this and other similar movements, but there was undoubtedly some ground for complaint on the part of the Governments of the Baltic States.

The sudden change in Germany's policy towards Lithuania in 1936 seems the more startling in view of these barely disguised activities. On February 11 it was announced that, at the request of the Lithuanian Government, and in view of the fact that, since the recent elections in Memel, the Directorate and *Landtag* had been functioning in accordance with the terms of the Statute, the German Government was now willing to enter into negotiations for the resumption of normal trade relations. On August 5 a new trade treaty was finally concluded between the two countries, together with supplementary agreements regulating payments, border relations, and the labour rights of their respective nationals.

Shortly after the initiation of the German-Lithuanian trade negotiations in February 1936, Herr Hitler, in a Memorandum handed to the Locarno Powers on March 7 on the occasion of the German military reoccupation of the Rhineland, and again in a Note of March 31, had renewed his earlier offer to conclude bilateral pacts of non-aggression with the States on Germany's north-eastern and south-eastern frontiers, and had added (in the Memorandum) that, since the Lithuanian Government had to some extent corrected its attitude with regard to Memel, he no longer excluded Lithuania from this offer. The French Government pointed out, in its reply of April 8, that Germany had refused to admit that such pacts could be included in a system of collective security, or that they could be accompanied by guarantees of mutual assistance, and emphasized that France 'could not conceive of a settlement of western security for which she would have to disinterest herself in the security of the rest of Europe'. The British *questionnaire*, handed to the German Foreign Minister on May 7, included an inquiry as to whether the German Government suggested that the proposed pacts should follow the general outline of such pacts given to Sir John Simon by Baron von Neurath on March 26, 1935, and whether it agreed that they might also be guaranteed by mutual assistance arrangements; the

that Memel is at present Lithuania's only practicable access to the sea. Moreover, since 1923 a large number of important industries have been established in and near the town with the object of supplying the Lithuanian hinterland; and thus a large proportion of Lithuania's industries are located in Memel. While these two circumstances have undoubtedly led to a noteworthy increase in the economic importance of Memel since the War, Memel has suffered much, on the other hand, through the closing of the Polish-Lithuanian frontier since 1920; for, as the result, what was formerly her chief source of income, namely the handling of timber floated down the Niemen from Poland, has ceased to exist.

At present over three-quarters of Lithuania's exports by value, and over two-thirds of her imports, are effected by sea through the port of Memel. In addition, goods are imported through Memel in transit for Russia and sometimes Latvia, and the same is true of exports. Traffic through Memel (in net registered tons) is now more than three-quarters that of Tallinn. During the last few years the practice of importing or exporting through the Latvian port of Liepāja has somewhat decreased in favour of Memel.

To this the completion in 1932 of the Siauliai–Telsiai–Kretinga railway has greatly contributed, since previously railway communication between Central Lithuania and Memel involved a long detour, either to the south, almost as far as Tilsit, or to the north through Latvian territory; and Liepāja was thus nearer to Kaunas than was Memel. The result of this increase can be seen from the following table:

TABLE 12. *Imports, Exports, and Shipping through Memel, 1932–7*

	Exports from Memel by sea (mill. lits)	*Percentage of total Lithuanian exports*	*Imports into Memel by sea (mill. lits)*	*Percentage of total Lithuanian imports*	*Shipping entered through Memel ('000 net registered tons)*
1932	123·6	65·4	78·3	46·9	519·7
1933	106·6	66·6	79·0	55·6	600·7
1934	97·3	66·1	83·9	60·5	622·8
1935	118·2	77·6	80·0	62·2	691·3
1936	149·4	78·4	106·2	68·0	788·5
1937	157·0	75·3	145·0	68·0	844·7

Out of the 844,700 net registered tons of shipping entering Memel during 1937, 294,400 tons were German, 150,000 Swedish, and 145,800

locus standi) protested at Kaunas, but were told that the law was valid under the Statute and could not be altered, although guarantees could be given that it would not be used for other than its ostensible purpose.

439 tons British. The Niemen is navigable as far as the Lithuanian-
505 Polish 'administrative line', and is used for cargo traffic as far as
361 Kaunas.

361 The administration of the harbour is provided for in an annex to
504 the Memel Statute of 1924, and is controlled by a board consisting
475 of one member appointed by the Lithuanian Government, one by the Memel Directorate, and one by the League of Nations. Since 1924 noteworthy steps have been taken to improve the technical equipment of the port. The harbour has been extended and deepened, docks have been excavated, cranes have been installed, and ware-
[457] houses built, the cost, running into 'several tens of millions of lits',[1] being borne mainly by the Lithuanian Government. Some of the expenditure, however, has been met out of a loan issued by the city in 1927 amounting to 4,000,000 RM. nominal and offered in Germany.

361 As has already been mentioned, Memel is a comparatively impor-
438 tant industrial centre. Of the 1,056 industrial enterprises in Lithuania employing 5 or more workmen at the beginning of 1937, 137 were in Memel, and of the 30,561 persons employed in such industries throughout Lithuania, 8,112 were employed in the Memel Territory. The more important industries include sawmills, veneer works, chemical fertilizer plants, and cellulose undertakings. There are also textile and tobacco factories of some size.

361 Outside the industrial district of the Territory the principal
241 occupation is agriculture. It is impossible to give any indication as
439 to the volume of production, since the figures are included with those of Lithuania proper. According to the available information, however, there is normally a small surplus of production for export; and since the easiest, if not the only, market is East Prussia, the agricultural population of the Territory suffered considerably from the virtual suspension of commercial intercourse between Lithuania and Germany owing to the dispute of 1932–5. The Agreement of August 1936 was consequently followed by an appreciable improvement.

361 The Statute of 1924 gives the Administration powers to levy direct
651 and indirect taxation inside the Territory with the exception of
[652] Customs and excise duties and certain monopolies. The Territory has a separate budget, which in 1934 balanced at about 14 million lits. The only funded debt outstanding is the loan of 1927 already mentioned.[1] Owing to the harbour's international importance, there is a comparatively large number of commercial and other banks domiciled in the Territory.

[1] *Lithuanian Telegraph Agency (Elta) Service*, March 1936.

1[see above, line 12 -- Analyst]

433 These differences are due largely to the effects of the Russian domination, which has profoundly influenced the productive structure of these States. Under the Russian Empire, it is true, the Provinces which are now Estonia, Latvia, and Lithuania were all primarily agricultural, and depended also to a great extent on the large reserves of timber which they each possessed. But it is important to emphasize that, whereas Lithuania depended entirely on timber and agriculture, this was not the case with Estonia or Latvia.
[439] For, until the Russian Revolution, the economic importance of Riga, Reval, and Narva consisted in the large quantities of industrial products there manufactured from imported raw materials and supplied to the Russian Empire; and, though to a lesser extent, in their position as centres of the entrepôt trade between Russia and Western Europe. After 1918 their importance in this sense disappeared, and with it the means of paying for imports of raw materials—means formerly supplied out of the resources of a great Empire—which were needed if their industries were to continue to operate on anything like the old scale.

727 Thus the problems which the three States had to face on the
433 establishment of independence were serious. Estonia and Latvia, though equipped both by their natural position and by their extensive industrial apparatus to become important manufacturing centres, lacked both the capital and the markets necessary to bring such an aim within the realm of practical politics. Moreover, in all three countries the actual devastation caused by the War was very considerable, and the demands of reconstruction were great. In addition, there were numerous other difficulties which hindered the reorganization of the economic system. Of these may be mentioned the question of agrarian reform and the splitting up of the large estates, such as those of the Baltic Barons. A further serious problem was that of communications, for the railways, built in the time of the Russian Empire, bore little relation to the needs of the three national States. In this Lithuania was perhaps the most severely affected; and the lack of a port under her unrestricted sovereignty was a further handicap. Lithuania, again, was somewhat impeded in her work of economic reconstruction by the persistence of the Vilna dispute with Poland, her most important neighbour. Thus, though not faced with the peculiar industrial questions confronting Estonia and Latvia, Lithuania had special problems of her own which made her task fully as difficult.

727 In the event, as will be seen, these problems were met by drastic
433 solutions. Estonia and Latvia, at any rate until 1931, abandoned
234 the hope of restoring their manufacturing industries to their pre-War position, and both countries were consequently forced to develop

727 other forms of production. Before the War Latvia, and to a smaller
234 extent Estonia also, had supplied St. Petersburg with butter and
433 other dairy produce. This trade, too, was lost after the Revolution,
[439] but the fact that it existed independently of foreign supplies suggested that dairy farming might be expanded so as to assume some of the importance formerly held in their economic systems by manufacturing industry. In this the development of the co-operative principle was of great assistance, and, during the period which ended in 1931, the two countries were able to make both ends meet by exploiting their forests and developing foreign markets for their butter and bacon, while their industries were still able to supply some of their own requirements of manufactured goods. Lithuania, though lacking manufacturing industries such as those possessed by the other two countries, followed a similar policy, and her success in finding foreign markets for her agricultural produce was the more remarkable in that the commercial organization of the country immediately after the War could not be compared with that of Estonia and Latvia. To sum up, then, the period 1918–31 described in the following section was one of reconstruction and of fundamental adjustment to the new conditions both inside and outside the Baltic. On the whole this process was highly successful, and it was no fault of the Baltic States that the conditions changed with the crisis of 1929–32.

Note: Except where otherwise stated, figures given in the tables are taken from the various statistical works published by the League of Nations, such as the Statistical Annuals, the annual memoranda on Foreign Trade and Balances of Payments, and the memoranda on Public Finance. Figures have occasionally been given in Swiss francs for comparative purposes. This is the old Swiss franc, the parity of which was 25·2215 to the £ gold, not the Swiss franc current since the devaluation of September 1936.

PART I: GENERAL FEATURES OF THE POST-WAR ECONOMY OF THE BALTIC STATES, 1919–30

I. THE PRODUCTIVE SYSTEM, 1919–30

BEFORE the growth of the productive system in this period is described, reference must be made to two developments: agrarian reform and the expansion of the co-operative system.

1. SPECIAL FEATURES

471 (i) *Agrarian Reform.*[1]
423 Although the growth of peasant ownership had proceeded rather more quickly in the Baltic Provinces than in the rest of Russia, a very large proportion of the land was still owned by a few large

[1] For the political effects of this see above, pp. 29–30.

423 433 particularly noticeable where the larger estates of the Baltic Barons had been split up—chiefly in Estonia and Latvia. Here, for example, farm buildings were often separated by the redistribution from the land which they had formerly served. Moreover, an entirely new class of landowners was called into being. These new small-holders were often ignorant of scientific agricultural methods, and were nearly always without means. It can therefore be seen that a whole series of problems was created by the reforms, which, throughout the period, it was the chief objective of agricultural policy to solve. The solution was found largely in the extension of the co-operative system.

474 Before the War there were numerous agricultural societies in existence in Estonia, Courland, and Livonia, and to a smaller extent in Lithuania. The idea, therefore, was not new. What new was the notion that the pre-War agricultural associations could be developed to the point where they became the central pivot of the [234] entire agricultural organization. The pre-War functions of these societies had been to organize savings banks, to purchase machinery for the use of members, to promote the use of artificial fertilizers, to pay for instructors, and not least to deal on the co-operative system in dairy produce. The last-named activity was, of course, essentially suited to the new conditions after the War, which had created a large number of small-holders, and it is in this direction that the development of the co-operative system was most remarkable.

474 234 439 *Estonia.* Co-operation developed in Estonia less during this period, perhaps, than in the other two countries, except as regards dairy farming. However, co-operative dairies increased from 60 in 1918 to 331 in 1929, and the two co-operative marketing associations soon succeeded in obtaining a market for Estonian butter abroad. Much encouragement was given by the Government, particularly as regards grading; and, by the end of the period, between 60 and 70 per cent. of Estonia's exports of butter was in the hands of these two societies. There was also a considerable extension of co-operative buying abroad,[1] mainly of agricultural machinery resold by the retail societies, while the number of societies which were formed to enable members to obtain the use of agricultural machinery increased from 28 in 1914 to about 800 in 1929. In addition, the co-operative system greatly aided the production and export of bacon, eggs, and potatoes. On the whole, however, Estonia left development rather more to the State and to individual enterprise than did Latvia or Lithuania.

000 *Latvia.* As in Estonia, the co-operative system of Latvia had been

[1] Through the Estonian Co-operative Wholesale Society, known as the E.T.K.

Latvia. As in Estonia, the co-operative system of Latvia had been somewhat highly developed before the War. However, the disorganization caused by the War and the inflation made a fresh start necessary. There was a rapid increase of consumers' co-operatives in 1920 and 1921, followed rather later by a similar increase in co-operative credit societies and co-operative dairies. On the whole, development was rather uneven, owing to the enormous demand for agricultural machinery, seed, and plant resulting from the devastation of the War; but a large group was soon evolved which was known as *Konsums*. This group lent money on the security of land, supplied farmers on credit with agricultural and dairy machinery and artificial manure, and was at one period commissioned by the Government to buy grain and flax for export purposes. Apart from the expansion of *Konsums* during these years the most notable feature was the growth of co-operative dairies, which by the end of the period numbered more than 400, with a total membership of more than 20,000.

Lithuania. The growth of co-operation in Lithuania was rather greater, and the field covered rather wider, than in the other two countries. This may perhaps be explained by the almost entire absence of any financial organization in Lithuania immediately after the War, which was not the case in the other countries. The growth of co-operation was very rapid, and by the end of 1927 there were no less than 2,089 co-operatives in existence, 640 of which were consumers' societies, 473 dairy co-operatives, and 587 credit co-operatives. The export of Lithuanian butter on the scale achieved during this period would probably never have become possible without the assistance of the *Pienocentras* co-operative organization. The same may be said of the export of bacon and live stock which was effected through *Maistas*, an organization controlled by the agricultural co-operatives' union (*Lietukis*) and the Farmers' Union, both agricultural co-operatives which, in addition to fostering pig-breeding, supply the farmers with fertilizers, seeds, and agricultural machinery.

2. Agriculture

(i) *Cereals*.

The area under cereals was comparatively small except in Lithuania. During 1926–30 the average annual percentage of the total area under rye, oats, barley, wheat, and meslin was 10·5 for Estonia, 12·9 for Latvia, and 23·0 for Lithuania, but a proportionately larger area of Estonia and Latvia is covered by forest. However, both Estonia and Latvia were regularly compelled to import large quantities of grain during the period, chiefly rye, while Lithuania normally had a surplus for export.

States were only just beginning to recover from the effect of these circumstances. 231 727

The Baltic States grow nearly all the fodder required for their cattle themselves. This consists largely of hay and mixed crops (meslin); as was seen, a large part of the total area of each country is pasture land. Roots were not often fed to cattle during the period. Great attention was paid to breeding by all three States, a subject which had not received much notice during the Russian period. In Latvia, for example, there were by 1928 over 500 associations formed for this purpose, and several hundred stud stations, most of which were assisted financially by Government departments, while imports of cattle for breeding purposes were a regular feature in the trade balance of all three countries. 232 246

There are comparatively few establishments exclusively devoted to dairy farming except for certain farms run directly by the co-operatives and the State. For the most part, the cattle are owned by individual peasants who deliver the milk to the co-operative dairies or bring their cattle to be milked. From this stage onwards dairy farming was developed during the period into a highly organized process, controlled largely, as was seen, by the co-operative system. This was not entirely a new thing in Estonia and Latvia, which before the War had supplied the Russian market, a substitute being found during this period in Great Britain. In Lithuania, however, it was an almost complete innovation. 234 474

The progress of dairy farming is illustrated by the following table:

TABLE 20. *Butter and Milk Production*

	Butter *Production in metric tons (000's omitted)* *(Creamery or factory butter only)*			*Milk* *Production in hectolitres (000's omitted)*		
	Estonia	*Latvia*	*Lithuania**	*Estonia*	*Latvia*	*Lithuania‡*
1925 . . .	7·2	7·9	0·3	4,823	†	92
1926 . . .	9·7	11·3	1·0	5,880	†	251
1927 . . .	10·9	12·0	1·3	6,118	†	312
1928 . . .	12·3	14·3	1·6	6,387	†	397
1929 . . .	13·7	17·0	3·1	6,334	12,650	725
1930 . . .	15·5	20·8	6·4	7,374	13,143	1,512

* Co-operative creameries only. † Figures not available.
‡ Milk delivered to dairies or factories.

A large proportion of the total production of butter is exported. The exact figure is difficult to ascertain, since complete figures for production are not always available. In Lithuania, during 1930, 6,000 metric tons of the butter manufactured by the dairies included in the above table, viz. 6,400 metric tons, were exported, the total export of 234 439

butter in that year being 7,400 metric tons. In 1930 Estonia exported in all 14,100 metric tons, as compared with the figure given above for production in that year of 15,500 metric tons, while Latvia exported 18,400 metric tons as compared with a production figure of 20,800 metric tons. Much progress was made with pig-breeding in Estonia and Latvia during the period; and considerable quantities of bacon were exported, mainly to Great Britain. Lithuania entered the field as a bacon exporter rather later than the two other countries, but by the end of the period her export trade was beginning to be considerable.[1] Poultry-breeding also was carried on intensively in all three countries, particularly Lithuania, which exported large quantities of eggs and poultry to Germany and Great Britain.

4. Timber

The percentage of the total area covered by forests was as follows:

	Percentage	*State property as percentage of this*
Estonia (1929). .	20	88
Latvia (1928). .	29	85
Lithuania (1927). .	17	?

The species vary considerably: in Estonia softwoods prevail to the extent of about 63 per cent., followed by birch (19 per cent.), aspen (10 per cent.), alder and others (8 per cent.), while in Latvia 77 per cent. of the total forest area is covered by softwoods, the remainder being birch (15 per cent.), aspen (4 per cent.), alder (3 per cent.), and others (1 per cent.). The Lithuanian forests consist of softwoods (62 per cent.), aspen (13 per cent.), birch (11 per cent.), alder (4 per cent.), and others (10 per cent.).

The forests of all three States, especially Latvia and Lithuania, suffered from the presence of hostile armies during the War, for large quantities of timber were felled as and when required, though it is true that this took place chiefly by the side of the roads and railways. After the War, too, the absence of agricultural buildings, and even of houses for the new small-holders, led to much abnormal felling of timber. In Lithuania, for example, a great deal of timber was sold at nominal prices or even given away to new settlers. Since the immediate post-War period, however, the respective Forestry Departments have established a more rational control over the timber resources of the State and also of those which are privately owned, for in most cases the owners in the latter category are municipalities or other public bodies.

[1] For the effects of this, see below, pp. 148–9.

438 mentioned, there had grown up an important series of manufacturing industries before the War. Some depended on local raw materials such as timber, but, in general, the pre-War industry of these territories took the form of the conversion of imported raw materials into finished articles, which were sold in Russia. The extent of these industries may be judged from the fact that in 1910 more persons were employed in the textile, chemical, and metal industries of Latvia than the entire number of those employed in all the industries [396] of the country in 1926. Moreover, Reval (Tallinn) was one of the most important shipbuilding bases of the Russian Empire, while at Krainholm there existed one of the largest cotton mills in the world.[1]

439 The War, and the establishment of independent States, changed 427 the whole position. The Russian market, the basis of the manu- 433 facturing industry, was lost. The indispensable raw materials could no longer be imported on the pre-War scale; and, as has been seen, the mineral resources of Estonia (except for oil-shale) and Latvia are negligible from the commercial point of view. Moreover, the War had brought devastation which in many cases it would have been impossibly expensive to repair even if markets had existed; in Latvia, which was perhaps most severely affected, the retreating Russians had carried off most of the machinery which could be moved, and many of the factories were no more than empty buildings. Finally, the demands of economic nationalism required that Lithuania should make some attempt to develop manufacturing industries of her own where none had existed before.

433 It is impossible to trace here the steps by which some kind of order was produced from the chaos of the years immediately after the War. In general, the policy of Estonia and Latvia was to develop only those industries which were essential to local requirements, or which could exist without the Russian market. Within this limited scope, a considerable measure of success was achieved during the period. [457] The State was occasionally able to make good the loss or destruction of machinery through foreign relief credits received immediately after the War, and when some degree of economic and political stability had been achieved in the Baltic, foreign capital—chiefly German and British—was made available to industry through the banking system. It was even possible to obtain a small footing in the export market, for the standard of living in Estonia and Latvia was comparatively low, and costs were often on a good competitive

283 [1] The early development of the cotton industry in Estonia was largely due to a British-trained German, Julius Knoop (1811–94), who eventually came to dominate the entire textile industry of Russia. For further details, see L. H. Jenks, *The Migration of British Capital*, New York, 1927, pp. 183–4. A fuller account will be found in *Krainholm Manufaktur 1857–1932*, privately printed by the Gesellschaft der Krainholm Manufaktur für Baumwollfabrikate, 1933.

obtained in the flax-spinning and weaving industries, which were able to export during this period. 288

The timber industries, which include sawmills and veneer and boxwood factories, are very similar to those of Latvia, and similar conditions apply; but during these years Estonia began to specialize in the production of plywood. In this, British capital is interested through Venesta Ltd. There is also an important match industry, and a comparatively large cellulose factory at Tallinn. The paper and pulp industry suffered considerably from the War, but had begun to recover by 1929. The metal and machinery industries of Tallinn suffered in the same way as those of Riga, though the depredation and devastation caused by the War was perhaps less severe. But, whereas before the War nearly 20,000 men were employed in the principal shipyards and engineering works of that centre, the difficulty of paying for raw materials and the loss of the Russian market brought plant almost to a standstill. Several factories were eventually adapted to produce goods for the home market, but during the period the industry as a whole was rarely working to more than about 20 per cent. of capacity. 313 325 727 396

Apart from the foodstuffs industry the only other industry of importance in Estonia was that connected with shale. It has been estimated that workable strata cover an area of about 2,400 square km., and that reserves amount to over 5,000 million tons. These reserves were by no means fully exploited during the period, but a beginning was made in using the cheap form of fuel provided by oil-shale for a number of industries and public utilities, such as gas-works and the railways. Moreover, the ashes which remain from oil-shale after carbonization can be used, when ground, as a binding material for building purposes; and, as a result, the quality of Estonian cement acquired a wide reputation. It is also possible to extract a liquid oil from oil-shale, and a plant, which began to operate in 1925, was set up for this purpose. The oil so obtained is refined into a number of different types of spirit such as benzine, gasoline, and lubricating oil; and its commercial use became possible during the period. Finally, it may be mentioned that the British firm, New Consolidated Goldfields Ltd., has been interested in the production of oil from shale for some years. 382 [135] [339] [439]

Lithuania. Before the War Lithuania had no manufacturing industries comparable with those of Estonia and Latvia. Most were connected with the preparation of foodstuffs, tanning, or the manufacture of bricks, glass, and pottery; there was a timber industry, but this was on a much smaller scale than that of the two other countries. There were also two comparatively large ironworks (Schmidt Bros. and Tillmann Bros.) manufacturing nails, locks, 438

438 chains, and other similar articles. Such industrial plant as there was
[727] suffered severely from the War; buildings were destroyed, machinery was carried off, and any liquid capital confiscated.

433 During the period 1918–31 there was no fundamental change in
727 the industrial structure of Lithuania proper. The period was largely one of reconstruction; and it was possible in many cases to renew plant lost in the War by the use of foreign credits. Production was to some extent assisted by tariffs, but little, if any, attempt was made to obtain a place in foreign markets. The industrial capacity of the country as a whole was, however, substantially increased by the addition to Lithuania proper of the Memel territory, for Memel
[464] possesses considerable industries such as sawmills, &c.;[1] and by 1928 it was estimated[2] that altogether about 40,000 persons were employed in manufacturing industry throughout Lithuania and the Memel Territory. As compared with the respective figures for Estonia and Latvia, this figure is small when the very much larger population of Lithuania is borne in mind. In all there were 7,250 undertakings classified as industrial enterprises, of which only 75 employed 50 or more workmen.

II. FOREIGN TRADE AND BALANCE OF PAYMENTS, 1919–30

1. General Observations

● 439 During the years 1919–30 these countries had to deal with peculiar difficulties in developing their foreign trade. Not only did the period of actual hostilities last until 1922, but the creation of three new independent States required the organization of three separate economic units. In Estonia and Latvia, it is true, there existed a rough basis, consisting of the commercial communities of Tallinn and Riga,[3] on which it was possible to build the necessary organization, since these ports had been two of the most considerable foreign trading centres of the Russian Empire. In Lithuania, however, there was no such organization at all, for until 1918 the territories forming that State had been more or less self-supporting, and Lithuania's foreign trade had to be created, as it were, out of a vacuum. In the event, the development of foreign trade in the Baltic States during

[1] See above, p. 102.

[2] *Lithuania, 1928*, edited by E. J. Harrison, London, 1928, p. 178.

[3] Before the War Riga had been mainly an export centre; Reval (Tallinn) an import centre. After the War this position was reversed. Riga's imports greatly exceeded her exports, while exports from Tallinn generally exceeded imports (1913 figures):

	Imports	*Exports*
Riga . .	£19,000,000	£23,000,000
Reval . .	£10,000,000	£2,400,000

this period was highly successful. The total turnover (imports plus exports) per head of the population in 1929 was, for Latvia, 325·9 Swiss francs, for Estonia, 294·3 Swiss francs, and for Lithuania, 132·8 Swiss francs. These figures may be compared with (figures for 1929 also) 101·7 Swiss francs for Yugoslavia, and 100·4 Swiss francs for Rumania.

In the system developed during the period three features should be emphasized. Firstly, the trade of all three countries consisted of the exchange of a limited range of raw materials, mostly timber, flax, bacon, and dairy produce, for a wider range of raw materials and for manufactured articles. Though, as was seen, it is incorrect to say that Estonia and Latvia had no industries of importance during the period, their industrial exports (except for timber manufactures and for the Latvian trade with the U.S.S.R. after 1927) were on the whole insignificant. Secondly, the trade of all three countries was dependent to a high degree on exports to the United Kingdom and Germany, trade between the three countries themselves being of little importance. Lastly, in Estonia and Lithuania the value of imports tended roughly to be balanced by that of their exports, while in Latvia there was a habitual excess of imports over exports.

Development during the period is shown in Table 22. It will be seen that from 1923 there was a steady rise in the value of imports and exports until 1928 in Estonia and until 1929 in Latvia. The increase continued throughout the period in Lithuania. The increase of the Lithuanian figures was the greatest, for, as has been seen, it was here that the leeway to be made up was the largest. The reason for the increase in general is to be found mainly in the steadily rising price of raw materials during the period, in the general growth of foreign trade after the War, and not least in the availability of credits from foreign banks, whereby the exports of these countries could be moved. Longer term credits from abroad also facilitated the increase of imports, though perhaps to a smaller extent.

2. Principal Commodities

The value of the principal commodities is given in Table 23 on pp. 123–4. It should be noted that the figures in these tables for individual items are probably not strictly comparable as between country and country owing to divergencies of classification, but they do afford a rough basis for comparison.

The principal export commodity was timber, either as sawn logs, or pit-props, or in the form of more highly worked products such as veneers and plywoods. The chief development in exports, however, was a rise in the relative and absolute value of dairy exports, mainly

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB1

● 439

TABLE 22. *Value of Foreign Trade, 1920–30 (special trade: excluding bullion and specie)*

(i) *In millions of national currency*

	Estonia (kr.)			*Latvia (lats)*			*Lithuania (lits)*		
	Exports	*Imports*	*Balance*	*Exports*	*Imports*	*Balance*	*Exports*	*Imports*	*Balance*
1920	12·3	14·0	− 1·7	62·3	96·3	− 34·0	55·2	72·3	−17·1
1921	22·9	44·8	−21·9	28·9	73·4	− 44·5	57·6	95·3	−37·7
1922	48·1	55·9	− 7·8	102·0	107·4	− 5·4	76·9	74·9	+ 2·0
1923	57·1	93·3	−36·2	162·0	211·9	− 49·9	146·8	156·6	− 9·8
1924	78·7	82·0	− 3·3	170·5	256·4	− 85·9	266·6	206·5	+60·1
1925	96·6	96·5	+ 0·1	178·9	280·3	−101·4	242·5	250·3	− 7·8
1926	96·2	95·6	+ 0·6	188·2	260·1	− 71·9	253·3	237·9	+15·4
1927	105·8	96·4	+ 9·4	221·1	249·8	− 28·7	245·9	265·6	−19·7
1928	126·6	131·2	− 4·6	261·4	308·0	− 46·6	256·7	290·8	−34·1
1929	117·4	122·4	− 5·0	273·9	361·7	− 87·8	329·7	306·2	+23·5
1930	96·4	98·3	− 1·9	247·9	295·9	− 48·0	333·7	312·3	+21·4
				(ii) *In million Swiss francs*					
1923	85·6	140·3	−54·7	162·0	211·9	− 49·9	76·1	81·2	− 5·1
1924	104·3	109·3	− 5·0	170·5	256·4	− 85·9	138·2	107·0	+31·2
1925	134·7	134·6	+ 0·1	178·9	280·3	−101·4	125·7	129·7	− 4·0
1926	134·2	133·2	+ 1·0	188·2	260·1	− 71·9	130·0	122·1	+ 7·9
1927	147·5	134·4	+13·1	221·1	249·8	− 28·7	126·6	136·7	−10·1
1928	176·2	182·7	− 6·5	261·4	308·0	− 46·6	132·6	150·3	−17·7
1929	162·7	169·7	− 7·0	273·9	361·7	− 87·8	170·4	158·2	+12·2
1930	133·4	136·0	− 2·6	247·9	295·9	− 48·0	173·1	162·0	+11·1
Average 1923–30	134·9	142·5	..	213·0	278·0	..	134·1	130·9	..
Percentage increase, 1923 to peak year	105·1	67·2*	..	69·1	70·7	..	127·5	99·5	..

* 1924 is taken instead of 1923 when imports were abnormally heavy owing to the effects of the War.

butter. This was largely due to the efforts made during the period to encourage dairy farming in all these countries through the extension of the co-operative system. The relative fall in the value of timber exported as between 1923 and 1928–30 was due to the increase in the relative value of butter exports; the absolute value of timber exports increased in each case. Competition from the U.S.S.R. was largely responsible for the failure of timber exports to increase by a larger percentage. This factor also was responsible for the decrease in the absolute and relative value of flax exports after 1923—at any rate in Estonia and Latvia. Estonia and Latvia alone were able to export manufactured articles during the period: these are mainly textile goods made in the mills of Riga and Narva which, as was noted, had formerly supplied much of the requirements of the Russian Empire. Other points which should be noted are the relative

• 439

1: Anonymous U-4 (no date) 1938 RG1 Baltic States RB1

TABLE 23. *Value of the Principal Commodities Exported and Imported*

1. EXPORTS

	(i) *Values (in million Swiss francs)*						(ii) *Percentages*					
	Estonia		*Latvia*		*Lithuania*		*Estonia*		*Latvia*		*Lithuania*	
	Year 1923	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*
1. *Foodstuffs.*												
Butter	8·4	46·3	9·3	56·3	•	17·0	9·7	29·4	5·7	21·6	•	10·7
Meat and bacon	1·1	4·9	•	2·2†	•	9·2	1·2	3·1	•	0·8†	•	5·8
Livestock (including poultry)	•	1·0	•	•	8·4	28·8	•	0·6	•	•	11·0	18·1
Eggs	•	•	•	•	7·8	6·8	•	•	•	•	10·3	4·3
Grain	•	•	2·1‡	•	5·6	3·1	•	•	1·3‡	•	7·4	1·9
Other foodstuffs	4·2	9·2	6·4	5·0	2·6	9·3	4·9	5·8	3·9	1·9	3·4	5·8
2. *Other raw materials and semi-manufactures.*												
Timber (including sawn, veneers, &c.)	20·5	28·6	61·7	94·2	21·8	41·2	23·9	18·2	38·0	36·1	28·6	25·9
Paper-making materials	‖	8·6	‖	3·8‖	2·2¶	1·2¶	‖	5·5	‖	1·4‖	2·9¶	0·8¶
Hides and skins, including leather	‖	3·7	2·3††	8·5	5·6	7·1	‖	2·4	1·4††	3·3	7·3	4·5
Flax	17·3	10·7	41·6	16·7	6·7	17·0	20·1	6·8	25·7	6·4	8·8	10·7
Seeds	0·4	0·7	‖	7·3	7·0	7·6	0·5	0·4	‖	2·9	9·2	4·8
3. *Manufactured goods.*												
Textiles	16·1	26·7	0·5	13·3	‖	‖	19·1	16·9	0·3	5·1	‖	‖
Paper	8·9	9·4	2·1	6·6	‖	‖	10·4	6·0	1·3	2·5	‖	‖
Rubber boots and shoes	‖	‖	‖	11·4	‖	‖	‖	‖	‖	4·4	‖	‖
Machinery and vehicles	‖	1·6	2·9	12·3	‖	‖	‖	1·0	1·8	4·7	‖	‖
Other unspecified exports	8·7	6·0	33·1••	23·5	8·4	10·4	10·2	3·9	20·6	8·9	11·1	6·7
Total	85·6	157·4	162·0	261·1	76·1	158·7	100·0	100·0	100·0	100·0	100·0	100·0

• Included in other foodstuffs. † Bacon only. ‡ Oats only. ‖ Included in 'other unspecified exports'.
‖ 1930: wood pulp only. ¶ Rags only. •• Including 11·5 million Swiss francs of unwrought metals. †† Raw hides and skins only.

TABLE 23 (*continued*)

2. IMPORTS

	(i) *Values (in million Swiss francs)*						(ii) *Percentages*					
	Estonia		*Latvia*		*Lithuania*		*Estonia*		*Latvia*		*Lithuania*	
	Year 1933	*Annual average 1928–30*	*Year 1933*	*Annual average 1928–30*	*Year 1933*	*Annual average 1928–30*	*Year 1933*	*Annual average 1928–30*	*Year 1933*	*Annual average 1928–30*	*Year 1933*	*Annual average 1928–30*
1. *Manufactured Articles.*												
Textiles	16·3	18·3	40·5	54·0	25·0	31·0	11·6	11·3	19·1	16·7	30·8	20·1
Iron and steel and metal goods	11·5	13·7	10·9*	24·3	6·9	13·3	8·2	8·4	5·2*	7·5	8·5	8·5
Agricultural machinery	4·0	3·5	34·6	4·3	1·6	2·2	3·5	2·1	16·3	1·3	2·0	1·4
Other machinery (including cars)	18·0	17·2		34·4	3·2	13·1	12·8	10·6		10·7	3·9	8·4
Glass	0·9	0·9	†	†	1·9	2·0	0·6	0·6	†	†	2·3	1·3
Paper and manufactures thereof	†	2·9	2·5	4·1	1·9	3·8	†	1·8	1·2	1·3	2·4	2·4
Rubber boots and shoes	†	1·9	†	2·8	†	3·9‡	†	1·2	†	0·9	†	2·5‡
Chemicals, dyes, and paints	†	8·3	17·4	13·6	2·8	4·3	†	5·1	8·2	5·6	3·5	2·7
Other unspecified mineral products	1·8	2·5	†	2·0	0·5	1·3	1·3	1·5	†	0·6	0·6	0·8
Total	53·4	69·2	105·9	144·5	43·8	74·9	38·0	42·6	50·0	44·8	54·0	46·1
2. *Foodstuffs.*												
Grain and flour	15·2	23·3	11·7	48·1	†	†	10·8	14·3	5·5	14·9	†	†
Sugar	8·0	8·2	13·3	12·4	5·3	8·9	5·7	5·0	6·3	3·8	6·6	5·7
Herrings	2·9	3·4	7·6	6·9	2·7	5·0	2·1	2·1	3·7	2·1	3·3	3·2
Other unspecified foodstuffs	6·3	11·3	20·4	21·5	8·8	11·3	4·5	6·9	9·6	6·7	10·7	7·2
3. *Other imports.*												
Petroleum	1·5	2·3	1·1	6·8	1·0	5·0	1·1	1·4	0·5	2·1	1·3	3·2
Other oils and rubber	5·3	5·5		4·7	1·3	†	3·8	3·4		1·5	1·6	†
Hides, skins, and leather	†	5·7	8·9	13·1	5·2§	5·4	†	3·5	4·2	4·1	6·4§	3·4
Manure	†	3·6	†	2·4	2·3	7·7	†	2·2	†	1·1	2·8	4·9
Coal and coke	4·6	2·3	9·4	13·6	2·8‖	5·7‖	3·2	1·4	4·4	4·2	3·4‖	3·6‖
Cotton (raw)	16·4	14·2		7·1	†	†	11·7	8·7		2·2	†	†
Wool (raw)	0·8	1·7	8·8	3·0	†	†	0·6	1·0	4·2	0·9	†	†
Hemp, jute, and other textile fibres	†	2·0		3·6	†	†	†	1·2	†	1·1	†	†
Tobacco	1·6	1·6	†	4·2	0·9	1·7	1·1	1·0	†	1·3	1·1	1·1
Other unspecified imports	24·3	8·5	24·6	29·0	7·1	31·2	17·8	5·3	11·6	9·2	8·8	19·6
Total	140·3	162·8	211·9	321·9	81·2	156·8	100·0	100·0	100·0	100·0	100·0	100·0

* Ore and semi-manufactured articles only. † Included in 'other unspecified imports'. ‡ 'Rubber manufactures'.
§ Leather only. ‖ Coal only

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB1

and absolute importance of Latvia's timber exports—mainly to the United Kingdom, and the size of Lithuania's exports of live stock. Lastly, though these countries are principally agricultural, Lithuania alone could afford, in these years, to export her grain. 439 ●

Grain and flour in fact constituted an important item in the imports of Estonia and Latvia during this period. The increase in the relative value of grain imports as between 1923 and 1928–30 may be accounted for by the fact that in both countries the development of the co-operative system was encouraging the turning over of land from crops to pasture. By far the most considerable import, however, was that of manufactured goods of all kinds, in each case more than 40 per cent. of the total during the period 1928–30. But, high as this figure was, it was lower than in many other agricultural countries during these years, e.g. the Balkan States. In the case of Estonia and Latvia, this is largely due to the relatively greater importance of industry, as was seen above. Apart from manufactured imports, the Baltic States were forced to obtain a large number of 'colonial' goods such as sugar, tea, and coffee from abroad. They were also compelled to import their entire requirements of coal, coke, and mineral oil.

3. Distribution of Foreign Trade

Changes in the distribution of foreign trade over the period can be seen from the tables on p. 126 in which the figures for 1923, 1927, and 1930 are given.

Importance of the United Kingdom and Germany. The principal fact during this period is, as already noted, the overwhelming importance of the United Kingdom and Germany. In each case these two countries accounted for more than half the exports and more than three-quarters of the imports of the Baltic States. Germany's proportion in the imports and exports of Lithuania was greater than in the other two countries, largely no doubt for geographical reasons. It should be noted that the Baltic States tended to have an export surplus in their trade with Great Britain, which was used to cover the habitual import surplus in their trade with Germany, at any rate in the case of Estonia and Latvia. There was a steady rise throughout the period in the proportion of exports to Germany, though the heavy increase between 1923 and 1927 in the proportion of Estonia's and Latvia's exports to Germany is misleading, for 1923 was the year of the depreciation of the mark. Simultaneously there was a general decrease throughout the period in the proportion of exports to the United Kingdom, though the absolute figures show a fairly steady rise. The principal commodities exported to Germany were butter (Estonia and Latvia), timber, and flax.

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB1

439

TABLE 24. *Distribution of Foreign Trade*

(i) EXPORTS (*per cent. of the total value*)

To:	Estonia			Latvia			Lithuania		
	1923	1927	1930	1923	1927	1930	1923	1927	1930
Germany	10·8	29·8	30·1	7·6	26·4	26·6	43·3	51·6	59·9
United Kingdom	34·1	31·4	32·3	46·3	34·1	28·4	26·9	24·8	19·5
Belgium	9·0	5·4	1·9	19·7	10·8	6·4	1·6	2·0	2·0
Holland	0·7	2·7	2·2	2·8	5·9	6·0	1·4	1·7	2·0
France	1·5	1·2	4·2	6·6	2·2	5·2	1·2	1·1	0·7
Estonia	—	—	—	1·4	*	1·4	*	*	0·1
Latvia	8·0	5·2	1·7	—	—	—	15·9	8·6	6·9
Lithuania	*	*	*	1·7	*	2·7	—	—	—
Sweden	10·0	4·4	4·0	1·4	1·4	1·1	*	1·6	1·2
Norway	0·4	1·6	1·1	*	0·4	*	*	0·1	*
Denmark	6·2	3·5	7·7	3·2	1·9	1·6	2·5	0·3	1·3
U.S.S.R.	6·7	6·3	4·5	3·7	1·7	14·1	*	0·5	1·6
Finland	8·5	4·8	2·7	0·3	1·2	0·7	*	0·2	*
Poland	*	*	*	0·8	4·0	1·1	*	0·1	*
Danzig	1·2	0·3	1·2	0·2	‡	0·1	*	*	*
Austria	*	*	*	*	0·5	0·2	*	*	*
Czechoslovakia	*	*	*	0·5	0·2	0·4	*	1·5	0·1
Italy	*	*	*	*	0·1	0·2	*	*	0·1
Switzerland	*	*	*	0·1	0·1	0·2	*	*	0·2
U.S.A.	1·3	1·2	2·0	2·4	2·5	1·0	1·8	1·8	0·6
Other countries	1·6	2·2	4·4	1·3	6·6	2·6	5·2	3·9	3·6
Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

(ii) IMPORTS (*per cent. of the total value*)

From:	Estonia			Latvia			Lithuania		
	1923	1927	1930	1923	1927	1930	1923	1927	1930
Germany	51·0	26·5	28·3	45·2	40·6	37·2	30·9	53·2	48·5
United Kingdom	19·7	14·3	8·6	17·0	10·6	8·5	5·3	6·7	7·7
Belgium	2·3	1·9	1·9	2·4	1·8	1·9	*	1·2	2·4
Holland	1·0	1·6	1·7	4·9	3·0	1·9	0·6	3·4	3·2
France	0·6	3·5	4·2	1·4	2·3	3·2	0·3	1·3	3·0
Estonia	—	—	—	2·4	*	1·3	*	*	1·1
Latvia	3·8	3·1	2·7	—	—	—	3·3	*	4·3
Lithuania	*	*	*	5·4	*	3·1	—	—	—
Sweden	3·2	5·1	4·8	2·4	4·2	3·0	0·2	1·9	2·4
Norway	0·1	0·3	0·1	*	0·1	*	*	0·3	0·4
Denmark	3·1	1·7	2·1	3·1	6·7	1·9	0·1	1·1	1·7
U.S.S.R.	4·0	9·1	9·3	3·6	7·3	5·9	*	2·4	4·4
Finland	3·2	2·2	2·2	0·4	0·7	0·8	*	0·5	0·7
Poland	*	*	*	3·9	8·0	10·5	*	7·8	3·3
Danzig	4·1	0·2	8·5	2·1	*	0·9	1·0	‡	‡
Austria	*	*	*	*	0·8	0·8	*	0·5	0·5
Czechoslovakia	*	*	*	1·2	2·7	3·7	3·3	5·2	5·8
Italy	*	*	*	*	0·4	1·1	*	0·8	2·0
Switzerland	*	*	*	0·8	1·3	1·8	*	0·9	1·2
U.S.A.	3·7	14·2	12·7	2·9	2·6	5·2	2·1	5·5	4·7
Other countries	0·2	16·3	12·9	0·9	6·7	7·3	2·9	7·3	2·7
Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

* Included in 'other countries'. ‡ Included in Poland.

Timber in all forms, flax, and butter were also the principal exports 439 ● to the United Kingdom.

The proportion of imports from Germany and the United Kingdom tended on the whole to decrease during the period. This again was largely due to considerations arising out of the respective currencies, 1923 being a year in which British and, still more, German goods were cheap to import. After the mark and the pound were stabilized, however, German goods were cheaper to import than British, owing to the comparatively high rate at which the pound was stabilized, and British exports to these countries tended to fall off proportionately more than German. German trade methods in these countries, also, were more enterprising than British; moreover, the German trade connexion in this area being of long standing, it was somewhat difficult for other foreign firms to establish a selling organization. The goods imported from the United Kingdom and Germany during the period covered the whole range of the imports of these countries, though it is probably true to say that proportionately more textiles were imported from the United Kingdom than from Germany, and proportionately more machinery, hardware, and chemicals were imported from Germany than from the United Kingdom. Herrings, coal, and coke came mainly from the United Kingdom.

U.S.S.R. Except for the transit trade, trade with the U.S.S.R. was never resumed during this period on the pre-War basis, at any rate as regards Estonia and Lithuania, though a small quantity of Estonian textiles continued to be imported. The principal development was the commercial agreement signed between Latvia and the U.S.S.R. in 1927, which led to an increase of exports, mainly manufactured, to the latter. The rapid increase in industrial exports to the U.S.S.R. between 1927 and 1930 led for a time to the hope that Latvian industry might recover some of its pre-War importance, but there was a severe decrease after 1930, and the treaty lapsed in 1932.

The Baltic Clause. Trade between the Baltic States themselves, as has been seen, was small; if the export of Lithuanian grain to Latvia is ignored, almost negligible. This was largely due to the fact that the principal exports of these countries are competitive, not complementary, which was one of the principal obstacles to closer economic co-operation in the Baltic States during these years. Nevertheless, in November 1923, Estonia and Latvia concluded a [451] treaty for the establishment of an Economic and Customs Union between the two countries, and an attempt was made to extend this system to Lithuania at a conference held at Kaunas in May 1924. It was then decided to appoint a commission to work out a scheme for the unification of the tariffs of all three countries, and subsequent negotiations proceeded on these lines. The result of such attempts

439 at co-operation was that, among the three Baltic States, the practice grew up of including in commercial treaties concluded with non-Baltic countries the so-called 'Baltic clause'. By this clause the Baltic States reserved for application as between themselves certain privileges which could not be passed on to other countries by virtue of the most-favoured-nation clause.[1] However, the practical results of this measure do not appear to have been substantial.

Other Countries. Apart from the United Kingdom and Germany, the principal markets, then, consisted of the Scandinavian countries and Belgium; Lithuania's commercial intercourse with Poland came to an almost complete standstill after the Vilna incident. Exports to the rest of Europe were negligible, in spite of the conclusion of numerous bilateral agreements during the period. Imports from the rest of Europe also were small except for Czechoslovak textiles and machinery from Belgium. However, the proportion of imports from the U.S.A. was fairly considerable during the period. These consisted largely of agricultural and other machinery.

4. Balance of Payments, 1919–30

439 457 During this period there was a fundamental difference between the position in Latvia and that in the other two countries, since Latvia's merchandise imports invariably exceeded her exports by a large margin:

Table 25. *Value of Exports expressed as a Percentage of that of Imports*

	Estonia	*Latvia*	*Lithuania*
1923	61·2	76·5	93·7
1924	95·9	66·6	129·2
1925	100·1	63·8	96·9
1926	100·7	72·4	106·5
1927	109·8	88·5	92·6
1928	96·6	84·9	88·2
1929	95·9	75·7	107·7
1930	98·1	83·8	106·9

Throughout the period the foreign trade balance was, as might be expected, of decisive importance to the balance of payments, the position of which tended to fluctuate with the price of timber and butter. The period can hardly be called normal, for after the War there was naturally a quite abnormal increase of imports for reconstruction purposes, which was financed largely by foreign capital in one form or another, e.g. the League Loan to Estonia, and the loans obtained by all three countries from the Swedish Match group.

[1] The Baltic clause is examined from a legal standpoint by Dr. Nikolas Kaasik in *Baltic Countries*, vol. i, no. 2, December 1935.

436 Lithuania. The situation in Lithuania immediately after the war
722 was rather different.[1] The currency in circulation at the outbreak of War was the rouble, but with the German occupation Reichsmarks came into circulation. To regularize this position a special institution was set up in 1916 by the German authorities, which issued the so-called 'Oberost' notes in exchange for roubles and marks. But, owing to the conservative instinct of the peasants, roubles tended to be hoarded, and thus the backing for the 'Oberost' money came to be preponderantly German currency. This system was maintained after the declaration of independence, and Lithuania had actually had no currency of her own until 1922, for the authorities continued to issue 'Oberost' notes, which were known as 'Auksinas'. This currency naturally fluctuated with the German mark, and the rapid depreciation of the latter during 1922 made the introduction of an independent Lithuanian currency an urgent necessity. It was finally
652 decided to create the litas, the parity of which was fixed at one-tenth
436 of the U.S. gold dollar,[2] since this currency was familiar to many Lithuanians, owing to the large number of their compatriots who
439 had emigrated to the United States. The currency came into circula-
652 tion on October 1, 1922. Simultaneously a bank of issue, the
453 *Lietuvos Bankas*, was established with a gold reserve consisting largely of 3 million gold roubles received from Russia under the Peace Treaty. The bank was granted the sole right of note circulation, one-third of which must be covered by gold. Half of the share capital is held by the State, and provision is made by statute for the exercise of the authority of the State over certain of the bank's activities.

436 *Estonia*. The monetary history of Estonia during the period was
652 rather different from that of the other two countries. This was due to Estonia's credit policy. Shortly after the declaration of independence Estonia began to issue its own currency, the Estonian mark, based roughly on the German mark, of which a great number were then in circulation. The extraordinary needs of the war with Russia led to a steady depreciation, which lasted until about the middle of 1921. But, though the need for extraordinary expenditure such as that required in the previous two years had ceased by 1921, the policy of the Central Bank (*Eesti Pank*), which had been formed in 1919, somewhat aggravated the situation. This bank was a State institution and acted as a bank of issue. But it was also the most important commercial bank of the country, for, during the years 1921–3, the Government endeavoured to restore something of Estonia's former industrial activity by supplying industry with

[1] A full account will be found in Dr. Kazys Sruoga, *Die Wirtschaft der Republik Litauen und ihre Notenemission*, Kaunas, 1930.

[2] Parity to the gold £ being, therefore, 48·666.

652 extraordinary expenditure ceased, and in all three countries it became possible to develop systems of public finance on a more orthodox basis. Only in Estonia was it necessary to obtain a foreign loan [656] for this purpose. As a result of the scarcity of capital, the State was often compelled to take over, during the early days, the administration of enterprises which elsewhere would have been left to ●[939] private initiative. In Latvia, for example, the State took over the entire foreign trade of the country for a period. Most of these extraordinary measures were dropped when more normal conditions returned, though it is hardly surprising that the railways remained in the hands of the State in practically every case.

From about 1925 onwards there was a fairly steady increase in expenditure up to 1928 or 1929. This was largely due to the comparative prosperity of these years, which made it easier to collect the necessary taxation. State expenditure reached a relatively high level in Estonia and Latvia, where the figure per head of the population in 1928–9 (ordinary and extraordinary expenditure) was respectively about 114 and 107[1] Swiss francs. State expenditure in Lithuania was on a considerably lower scale, and the corresponding per head figure in the budget year 1929 was about 59[1] Swiss francs, though Lithuania is exceptional in that expenditure did not reach its peak until 1931. Unfortunately, owing to differences in budgetary systems, it is not possible to attempt a detailed comparative analysis of the various items of expenditure. The largest single item is usually communications, for, apart from the current expenses of running the railways, there were in most cases many repairs arising out of the War which had to be undertaken. Defence usually accounted for about 15 to 20 per cent. of the total. The really striking feature of public expenditure in these years is the comparatively low cost of the debt service, in spite of the funding of debts arising out of the War.[2] In Latvia and Lithuania interest and amortization usually amounted to less than 2 per cent. of the total ordinary and extraordinary expenditure. Owing to the cost of the League Loan, the figure in Estonia was somewhat higher, though it continued to be under 5 per cent. of the total until 1930–1. The importance of these figures can be seen from the fact that in some of the Balkan States the service of the external debt alone usually accounted for about 20 per cent. or, occasionally even more, of the total annual expenditure by the end of this period.

Expenditure was to a very large extent covered out of revenue, at any rate during the latter half of this period, and in very few instances were there deficits. Where there were deficits they gener-

[1] These figures may be compared with 60·5 Swiss francs for Rumania in 1928–9.
[2] For details, see p. 135 above.

652 State had begun to encroach upon the field of private enterprise. The implications of this movement will become clear when the period after 1931 is considered.

4. The Banking System

453 Before the War banking had been fairly highly developed in Estonia and Latvia. The centre of the system, however, was naturally St. Petersburg. There was a considerable number of commercial banks in most of the more important towns of the Baltic Provinces, mostly with head offices in that city. Indeed, it was a frequent complaint that the commercial banks invested an excessive part of the deposits which they drew from the Baltic Provinces in [439] other parts of the Empire. These banks were largely concerned with the foreign trade conducted through Riga, Reval, and the other large ports and, to a lesser extent, with the financing of industry. In addition, since the beginning of the century, the Russian authorities had done something to foster the growth in all three countries of mortgage institutes for local requirements, and of municipal banks. The mutual credit association, also, was beginning to become popular.

The War, of course, destroyed this system. Liquid assets held in the branches were withdrawn to the head office, records were destroyed, and finally, in many cases, the parent institution ceased to exist. But the system left its mark on the Baltic States. For, when these States began to develop banking systems of their own, an unusually clear distinction was drawn between the function of the commercial banks and that of the other units of the system. Banking during this period grew up largely on the principle of the specialization of functions; and, even in Lithuania, where financial technique is less developed than in the other countries, there is a comparatively large number of categories of banks. Thus, in addition to joint stock commercial banks proper, there are usually to be found private banks, rural and urban credit institutions, mutual credit associations, and municipal banks, apart from the banking apparatus of the co-operative system.

In spite of this diversity of types, there is nothing in the Baltic States which corresponds to a money market, and the credit system is directly dependent on the central bank. This usually tended to render credit expensive, and during most of this period the rate of interest was considerably higher than in Western Europe. It would [151] certainly have been higher still but for the fact that the investments of foreign banks in the commercial banking systems of the Baltic States were substantial, and foreign credits were therefore easy to obtain at comparatively cheap rates. This, together with the return of more normal conditions after the War, led to a noteworthy expansion of

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB1

PART II. THE CRISIS OF 1931 AND SUBSEQUENT DEVELOPMENTS

INTRODUCTION

THE economic system built up by the Baltic States during the period which ended in 1930 was highly sensitive to tendencies in the outside world. In other words, the system depended very largely on the maintenance of prices at or around the levels of the years 1925–30, and still more on the ability of the chief markets to continue to absorb Baltic exports. The system also presupposed that foreign capital would be available to finance foreign trade and, eventually, the larger schemes of development for which money was lacking at home.

The crisis of 1931 swept away these assumptions. There was first a catastrophic fall in the price of all the commodities produced by these States. Simultaneously the principal markets, the United Kingdom and Germany, began to restrict their imports from the Baltic countries. The result was a considerable fall both in the exchange available for imports and in the exchange reserves held by the Central Banks. This led, in turn, to the imposition of exchange restrictions and, in Estonia and eventually in Latvia, to the abandonment of the currency parities introduced after the War. Meanwhile, in order to save foreign exchange, imports had to be reduced to a small fraction of the figures attained before the crisis, with a consequently severe effect on the whole productive system. Finally, budgets were thrown into deficit and there was a general increase in public internal indebtedness.

During the years which followed 1931 the Baltic States have been adjusting themselves, gradually, and on the whole with a considerable degree of success, to the new conditions which have since prevailed. The process of adjustment has been immensely assisted by the fact that, unlike most of the States of Central and Eastern Europe, the Baltic countries did not accumulate an excessive amount of foreign indebtedness in the years before the crisis. On the contrary, one of the chief differences between the effect of the crisis in the Baltic and that in the Balkans, for example, is that none of the Baltic States has defaulted on its foreign debt.

For countries as small as the Baltic States, a policy directed towards the greatest possible isolation from the outside world—such as that pursued by Italy or Germany—was obviously out of the question. Nevertheless, the adjustment has been accompanied by a complete reorganization of the productive system. Estonia and Latvia, in order to economize exchange, have increased their production of cereals, which, as a general rule, they now no longer import. Latvia

1: Anonymous U-4 (no date)1938 RB1 Baltic States

[248]

TABLE 35. *Flax Production*

(In thousand quintals)

	Average 1926–30	Average 1931–5	Year 1936	Year 1937*
Estonia . . .	95	65	87	113
Latvia . . .	196	152	185	257
Lithuania . . .	339	214	288	308

* 1937: provisional figures only.

257 under Government assistance. By the end of 1936 there were two
249 such factories in operation in Lithuania and four in Latvia, and the
483 production of beet sugar had increased in Lithuania to an annual average of 128,000 quintals for 1931–5 as against practically nothing in the preceding five years. In Latvia the increase was from an annual average of 29,000 quintals in 1926–30 to 315,000 quintals in 1931–5.. In 1936 Lithuania's production was 243,000 quintals, and Latvia's 382,000; and imports of sugar in both countries had been reduced to almost negligible figures.

4. DAIRY FARMING AND STOCK-BREEDING

● 439 It has been seen how during the earlier period dairy farming and
234 stock-breeding existed largely for the export trade. The general
231 decrease of foreign trade as the result of the crisis, therefore, made it especially important for the Baltic States to give further encouragement to this branch of activity. But a large proportion of the exports of Estonia and Latvia had been taken by the United Kingdom and Germany; and it was consequently inevitable that, owing to the trade policies pursued by these countries, particularly the latter, there should be some decrease in production. Lithuania, on the other hand, did not enter the field as a producer on a large scale until just before the beginning of the crisis, and was, therefore, able to profit by the mistakes of the other countries. As the result, there has been an almost spectacular increase in her production both of butter and of bacon; and, whereas her exports of these commodities before 1930 could not be compared with those of the other two countries, she is now by far the largest bacon exporter of the three, though it is true that her exports have recently fallen off. Lithuania also exports more butter now than Estonia, and nearly as much as Latvia. For this the energetic policy pursued by the co-operative system is largely responsible, since the production and marketing both of bacon and butter is entirely in the hands of this organization.

The reason why it has been possible for Lithuania to succeed in spite of the fact that, unlike Estonia and Latvia, she has refused to depreciate her currency, is, perhaps, that the general standard of

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB1

living is somewhat lower than in Estonia and Latvia, and the Lithuanian farmer can therefore accept prices which in the other countries would be considered too low. Further, Lithuania was fortunate in that there had been a great increase of her bacon exports to the United Kingdom just before the bacon quota was imposed in that country, with the result that the maximum of her bacon exports to Great Britain was fixed at a substantially higher figure than for the other two countries. Moreover, in recent years Lithuania's exports of bacon and butter have come to occupy a higher percentage of the country's total exports than in Estonia and Latvia, and it is consequently all the more important for the Government to foster the production and export of these commodities by subsidies, even if it means incurring a loss expressed in terms of national currency. The developments of the past few years are shown in the following tables:

439 234 231

TABLE 36. *Butter*

234 439

(a) EXPORTS TO ALL COUNTRIES
(*In thousand metric tons*)

	Estonia	*Latvia*	*Lithuania*
Annual average 1927–9. . .	11·2	12·9	2·9
Year 1930 . . .	14·1	18·4	7·4
„ 1931 . . .	14·4	18·7	8·7
„ 1932 . . .	12·5	18·6	9·9
„ 1933 . . .	9·2	15·6	9·6
„ 1934 . . .	10·1	15·7	9·7
„ 1935 . . .	10·8	16·8	12·2
„ 1936 . . .	11·0	17·3	14·6
„ 1937 . . .	13·2	19·2	15·1

(b) TOTAL OF COWS
(*In thousands*)

231

	Estonia	*Latvia*	*Lithuania*
Year 1930 . . .	416	728	696
„ 1936 . . .	446*	880	763

* 1937.

TABLE 37. *Bacon*

(a) EXPORTS TO ALL COUNTRIES.
(*In thousand metric tons*)

253 439

	Estonia	*Latvia*	*Lithuania*
Annual average 1927–9. . .	1·9	2·1	0·2
Year 1930 . . .	1·2	1·8	4·1
„ 1931 . . .	3·1	1·8	18·2
„ 1932 . . .	3·9	1·0	25·1
„ 1933 . . .	3·3	2·3	21·4
„ 1934 . . .	2·6	2·3	12·7
„ 1935 . . .	2·4	1·8	8·6
„ 1936 . . .	2·2	1·9	10·3
„ 1937 . . .	2·1	1·9	9·9

1: Anonymous U-4 (no date)1938 RBl Baltic State

231

(b) TOTAL OF PIGS[1]
(*In thousands*)

	Estonia†	*Latvia*	*Lithuania*
Year 1913 . . .	275	557	1,358
„ 1930 . . .	290	523	1,136
„ 1936 . . .	379*	674	1,210

† 1913–14. * 1937.

439 234 231 More than half of the butter exports from these three countries, and practically all the bacon exports, are now taken by the United Kingdom.[2] It seems to follow that the United Kingdom is gradually assuming towards the Baltic States responsibilities very similar to those she has already assumed in the case of Denmark. As will be seen, the sterling received for the Baltic States' exports of bacon and butter is of vital importance to the exchange position.

5. MANUFACTURING INDUSTRY

433 471 The principal change in the industrial system since the crisis has been the need, already mentioned, to save foreign exchange by manufacturing inside the country as far as possible what was formerly imported. The policy has been pushed furthest, largely at the instigation of the State, in Latvia and Estonia, for in these two countries the industrial apparatus required for such an experiment was to a considerable extent already in existence. In Lithuania, however, this was not the case, and industrial self-sufficiency has consequently made far less progress than in the other two countries, although when and where it has been possible advances have been made in this direction. But, in each case, the degree to which this policy can succeed is strictly limited by the fact that all three countries lack not only the essential raw materials of industry such as coal, iron, non-ferrous metals, rubber, cotton, and wool, but also the capital required for attempting the expensive process of manufacturing substitutes.

The progress made by industrialization in Estonia and Latvia can best be judged from Table 38 opposite.

464 438 The increase of workers employed in the textile trade, in which some degree of self-sufficiency is perhaps easiest to achieve, will be noted. The increase of workers employed in 'other' industries in Estonia is due largely to the activity of the shale industry, since at the end of 1937 the extractive industries were employing about 4,500 persons; this also accounts largely for the increase in 'chemicals'. Included in 'other industries' are also nearly 3,000 persons engaged

[1] Pre-war figures for Estonia and Latvia relate to a somewhat smaller area than that of the present States.

[2] Figures are given in footnote on p. 156.

1: Anonymous U-4 (no date)1938 RBl Baltic States/81
Estonia

TABLE 38. *Number of Workmen Employed in Manufacturing Industries*[1]

Industries	Estonia (enterprises employing 20 or more workers only)		Latvia (all workers)	
	1926	*1937 (end)*	*1926*	*1937 (end)*
Textiles	8,919	12,024	5,935	18,394
Woodworking	4,389	3,567	10,061	12,758
Metallurgical	3,758	6,384	8,408	19,541
Paper and printing	3,349	3,909	5,132	6,801
Foodstuffs	1,916	3,284	8,543	16,648
Chemical	835	2,831	3,433	5,182
Other	2,683	12,584	8,160	25,655
Total	25,849	44,583	49,672	104,979

in construction. In Latvia the increase in 'other' industries is chiefly due to the growth of activity in the clothing trade, employing over 13,000 at the end of 1937, and in building.

So far as the volume of industrial production is concerned, some indication as to developments in these two countries can be obtained from the following figures:

TABLE 39. *Indices of Industrial Production*

(1930 = 100, average for year)

	All commodities		*Capital goods*		*Consumption goods*	
	Estonia	*Latvia*	*Estonia*	*Latvia*	*Estonia*	*Latvia*
1930	100·0	100·0	100·0	100·0	100·0	100·0
1931	92·0	82·0	92·8	83·0	91·3	80·1
1932	79·3	75·7	78·1	53·4	78·4	78·1
1933	83·0	102·7	81·2	63·8	81·5	109·3
1934	97·7	119·8	106·3	83·3	91·5	126·9
1935	107·8	126·1	114·9	88·0	101·6	134·3
1936	121·6	131·5	133·0	103·7	112·5	138·3
1937	140·5	147·8	174·1	121·0	119·5	151·3

Estonia. Developments in Estonia's manufacturing industry since 1930 were subject to the general considerations mentioned above. Additional stimulus to industry was given by the introduction of severe import restrictions in the autumn of 1931 and of the control of the foreign exchanges. Moreover, the abandonment of the gold standard in June 1933 made it cheaper to buy raw materials abroad and to manufacture the finished article in the country than to import finished goods; and this greatly increased the development of industry. Finally, the increase in the purchasing power of the agricultural population, owing to the higher prices prevailing since 1935, led

[1] For the sources for the 1926 figures see note to Table 21, p. 117; the figures for 1937 are taken from *Eesti Statistika* for February 1938, and *Mõnela Bjletins* for March 1938.

178 to something like boom conditions during 1936 and 1937–8, when a shortage of labour and a movement towards higher wages, attracting workers from agriculture, began to be felt. The progress of industrialization during these years has largely been due to private initiative. But, in its initial stages, the State gave indirect encouragement by the imposition of import and currency restrictions, and in recent years has begun to play a more active part.

178 438 Industrial development has chiefly consisted in the further employment of plant already in existence, especially in the textile industry, where substantial progress was made on the lines already mentioned,[1] particularly in the use of home-grown flax. Considerable progress also was made in the plywood industry, mainly as the result of the building boom in Great Britain. As already stated, there was a noteworthy expansion in the shale and ancillary industries. Since 1930 plant has been greatly extended, and, by the end of 1936, the exploitation of Estonia's shale resources had reached a point where [439] it did much to compensate for the lack of other fuel.[2] It is noteworthy that, whereas the increase of industrialization in Latvia led to an increase of coal and coke imports from 4·2 per cent. of the total annual average value of imports in 1928–30 to 10·8 per cent. in 1936, in Estonia, where the progress of industrialization was nearly as great, the figure remained stable at about 1·4 per cent.

New industries also have been started since 1930. The production of artificial horn, which is made from milk, has assumed substantial proportions, and exports have steadily risen from 24 tons in 1928 to 751 tons in 1937. In the autumn of 1936 a factory was begun for the [475] manufacture of sulphate of cellulose. Negotiations are at present in progress for the erection of a plant for making superphosphate, which is to use the large deposits of phosphate near Tallinn, one of the few important mineral deposits in the Baltic States other than shale.[3] In this the State is, apparently, taking a direct interest. The State has also taken a direct interest in a brick-making concern founded in 1936.

471 433 *Latvia.* In general, however, the interest of the State, direct and indirect, is far greater in Latvian industry. This is a tendency which can be dated fairly accurately from the coming of the totalitarian régime in 1934. Before that date developments in industry since 1930 had been similar to those in Estonia. The first effect of the crisis was to restrict very severely the activity of the industries

[1] See above, p. 118.

[2] According to an article by the Estonian Minister in London in *The Banker* for March 1938, the output of oil-shale increased between 1920 and 1930 from 48,000 to 498,000 tons, and rose to 1,100,000 tons in 1937. Similarly, the production of crude oil increased from 10,000 tons in 1930 to 110,000 tons in 1937.

[3] *Die Börse* (Vienna), January 4, 1937; *The Banker*, March 1938.

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB1
Latvia
Lithuania

471 652 655 acquired a considerable interest in industries of a very varied nature, in determining the policy of which it is naturally instigated by the desires of the State. During 1936 and 1937, however, the State itself has been acquiring a direct shareholding interest in a number of concerns, of which may be mentioned a large metallurgical works in Riga, and a large brick factory. Even in the timber industry the Government is in a position to control auction sales, and is itself an exporter. Almost the only branch of industry which has so far remained free from the direct or indirect influence of the State is the textile manufacturing industry.[1] How far this policy will be pursued [185] it is impossible to say. The President stated in April 1937 that the Government wished the entire Latvian population to participate in the progress of industry by taking a direct shareholding interest, and appealed to the public to purchase shares in the new State brickworks, even suggesting that the State might guarantee dividends.

433 457 *Lithuania.* Developments in Lithuanian industry since the crisis have been on the whole inconsiderable. Though severe restrictions were placed on imports in 1935, the existing industrial system was too small to bear the strain of a thoroughgoing policy of self-sufficiency, and, in any case, the lack of foreign exchange and foreign credit has prevented the import of sufficient plant to make it possible. Nevertheless, there has been some expansion in the textile industry since 1930, and in 1936 there were as many as 5,000 persons employed in this branch, though the figure includes those employed in Memel. The result has been some decrease in the import of textile piece goods and an increase in the import of yarns and raw materials. [477] A further development of some importance has been the growth of trusts and combines, mainly in the foodstuffs and brewing industries, which have arranged for the regulation of output and the fixing of prices.[2]

II. FOREIGN TRADE AND BALANCE OF PAYMENTS, 1931–7

1. General Movement

● 439 It has been seen that the foreign trade of Estonia and Latvia had already begun to decrease before 1931. With the onset of the financial crisis of that year, the decrease in the trade of all three countries rapidly gathered momentum. The value of exports (expressed in Swiss francs) did not finally reach their lowest level until 1933 for

[1] The State, however, has recently taken an interest in a newly formed company concerned with the production of woollen textiles (*Frankfurter Zeitung*, August 21, 1937). It may be added that the State is interested also in shipping; see below, Appendix II, p. 191.

[2] Details are given in D.O.T.: *Economic Conditions in Lithuania, November, 1935*, publ. 1936, pp. 15–16.

Estonia and Latvia, and until 1934 for Lithuania. By this point the 439 value of exports for the two former countries was less than a third of the average for 1928–30, for Lithuania less than one-half. The figures are as follows:

TABLE 40. *Foreign Trade: Special Trade, excluding Bullion and Specie*

(Figures in millions)

(i) Values expressed in national currency

	Estonia (kr.)		*Latvia (lats)*		*Lithuania (lits)*	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Yearly average 1928–30	113·5	117·3	261·1	321·9	306·7	303·1
Year 1931	71·0	61·1	163·8	176·3	273·1	277·7
„ 1932	42·6	36·7	96·5	84·2	189·1	166·5
„ 1933	45·6	39·0	81·5	91·0	160·2	141·5
„ 1934	69·0	55·2	85·3	94·7	147·2	138·1
„ 1935	80·1	68·7	98·8	101·1	152·2	126·7
„ 1936	83·2	86·8	138·4	121·7	190·6	154·2
„ 1937	106·0	111·1	260·9	231·2	208·3	212·7
A. Percentage fall between 1928–30 average and lowest point	62·5%	68·7%	68·8%	73·8%	52·0%	58·2%
B. Percentage rise from lowest point	148·8%	202·7%	220·4%	174·7%	41·6%	67·9%

(ii) Values expressed in Swiss francs

	Estonia		*Latvia*		*Lithuania*	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Yearly average 1928–30	157·4	162·6	261·1	321·9	158·7	156·8
Year 1931	98·5	84·9	163·8	176·3	141·5	143·8
„ 1932	59·2	51·0	96·5	84·2	98·0	86·2
„ 1933	48·2	42·0	81·5	91·0	83·0	73·3
„ 1934	59·5	47·6	85·3	94·7	76·2	71·5
„ 1935	66·9	57·4	98·7	101·1	78·8	65·6
„ 1936	70·3	73·3	118·0	105·7	98·7	79·9
„ 1937	89·5	93·3	156·7	138·8	107·9	110·1
A. Percentage fall between 1928–30 average and lowest point	69·4%	74·2%	68·8%	73·8%	52·0%	58·2%
B. Percentage rise from lowest point	85·7%	122·1%	92·3%	64·9%	41·6%	67·9%

The reasons for the decrease do not require detailed consideration. [435] The main factor was the fall of prices, though the effect of the crisis on the two chief markets of the Baltic States, the United Kingdom and Germany, was almost equally important. For example, building in these two countries was greatly reduced, and their timber imports fell severely. Moreover, the policy of the United Kingdom

439 led to a reduction of her imports of bacon, and butter exports to that country had to be encouraged accordingly in order to make good the loss of free exchange.[1] What was perhaps of greater significance to the Baltic States than the cause of the fall of exports was its effect on imports. For, in the new conditions which now prevailed, it was vitally necessary, not only to reduce the value of imports *pari passu* with that of exports, but to achieve an export surplus in order to remedy the shortage of foreign exchange. This was the purpose of the numerous tariff and import quotas introduced during these years. The result of these efforts is shown below:—

TABLE 42. *Balance of Visible Trade*

(a) Amount in million Swiss francs. (b) Value of exports expressed as a percentage of that of imports.

	Estonia		*Latvia*		*Lithuania*	
	(a)	(b)	(a)	(b)	(a)	(b)
Yearly average 1928–30	− 5·4	97	−60·8	81	+ 1·9	101
Year 1931	+13·6	116	−12·5	93	− 2·3	98
„ 1932	+ 8·2	116	+12·3	114	+11·6	114
„ 1933	+ 6·2	117	− 9·5	90	+ 9·7	113
„ 1934	+11·9	125	− 9·4	90	+ 4·7	107
„ 1935	+ 9·5	117	− 2·4	98	+13·2	120
„ 1936	− 3·0	96	+12·3	114	+18·8	124
„ 1937	− 3·8	96	+17·9	113	− 2·2	98

As can be seen, the policy was highly successful in that the proportion of imports to exports was greatly reduced. In a wider sense this statement would have to be modified considerably. For, as was seen in the preceding section, this policy has involved certain radical changes in the productive system of these States, the ultimate advantages of which may be open to question.

[1] TABLE 41. *United Kingdom Imports of Bacon and Butter 1928–37.*

234 253 439

(In thousand £)

Year	*Imports of bacon from:*			*Imports of butter from:*		
	Estonia	*Latvia*	*Lithuania*	*Estonia*	*Latvia*	*Lithuania*
1928	154	559	7	628	397	11
1929	126	276	23	893	650	103
1930	94	198	252	641	332	134
1931	163	77	877	667	210	205
1932	208	46	1,181	338	450	263
1933	196	139	1,201	266	487	332
1934	190	164	926	350	421	403
1935	175	125	623	424	697	634
1936	173	145	758	493	827	884
1937	167	154	774	781	1,044	976

So far as Estonia and Latvia are concerned, there has been a noteworthy increase in the last three years both in value and in volume, the recovery in volume beginning in 1933. The volume of Lithuania's foreign trade, also, has recovered somewhat from that of the worst years:— 439

TABLE 43. *Volume of Foreign Trade*

(*In thousand metric tons*)

	Estonia		Latvia		Lithuania	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Yearly average 1928-30	474	489	1,284	1,421	569	712
Year 1931	407	372	774	1,050	368	743
„ 1932	251	233	657	734	331	634
„ 1933	322	219	954	813	462	628
„ 1934	521	285	1,042	919	525	610
„ 1935	478	296	1,051	1,049	499	713
„ 1936	456	384	1,080	1,104	540	780
„ 1937	516	432	2,016	1,224	468	936

In Estonia and Latvia the value of exports and imports fell by almost exactly similar proportions. The subsequent increase in the value of exports, also, has been of similar proportions. As regards that of imports, however, this has not been the case. The reason is that, on the one hand, it has been the policy of Latvia to eliminate the large import surpluses of the years before 1930, and that, on the other, Estonia's industrial policy has led to an extraordinary increase in imports in 1936 and 1937. The reasons for the recovery in general are to be ascribed to the rise of prices since 1933; in particular, to the large imports of timber into, and to the securing of a market for bacon and dairy produce in, the United Kingdom by the trade agreements of 1934. There can be little doubt, also, that the abandonment of the gold standard in 1933 greatly stimulated Estonia's foreign trade, and placed her for a time at an advantage over the two other countries. Movements in Lithuania's trade were rather different; the decrease was smaller, the lowest point was reached later, and the recovery has been slower, than in the other two countries. This difference is, perhaps, due to the fact that it was not necessary to introduce a managed currency and the consequent exchange restrictions until considerably later than in Estonia and Latvia, while the slowness of recovery arises from the repercussions of the Memel dispute with Germany in 1935. In 1937, however, there was an appreciable increase in her foreign trade though, for the first time since 1931, there was an import surplus.

Finally, mention must be made of a development which has greatly increased in importance since 1930, namely, the tendency 439 491

towards the centralization of the chief exports in the hands of the State or of organizations closely connected with the Government. This movement is no new thing; in Latvia a flax monopoly was instituted shortly after the War, and in all three countries the predominant position occupied by the co-operative system in the production of bacon and butter tended to give that system (particularly in Lithuania[1]) a predominant position also in the export of the commodities concerned. But its progress has been greatly accelerated since 1930 by the vital need to encourage exports in order to obtain the resulting foreign exchange, and, since 1933, by the advent of semi-authoritarian régimes in Estonia and Latvia. The tendency has been most marked in Estonia. During 1936 and the early part of 1937, the Government established autonomous State organizations which were given a monopoly of the export of butter, eggs, pigs, and bacon.[2] In Latvia the system of granting actual monopolies of export has not been much employed in recent years except in the case of flax, but since the export of most of Latvia's agricultural products was dependent on subsidies from the State, at any rate until the abandonment of the gold standard, the control which the State can exert over the export trade is considerable. It is also clear that since, in all three countries, the State actually owns a large proportion of the forests, the State is able to control the export of timber.

2. Principal Commodities

Tables are given on pp. 160–3 showing the value (expressed in Swiss francs) of the principal exports and imports in 1932, one of the worst of the crisis years, and the last two years for which comparable figures are available. The annual average for 1928–30 is given for purposes of comparison.

Changes in Nature of Imports. The most significant change during the past six years has been in the nature of imports, and arises, as already mentioned, from the attempt of these States to achieve a greater degree of self-sufficiency. Before the crisis about 14 per cent. of the imports of Estonia and Latvia consisted of grain and flour. Since 1931 the efforts made in both countries to increase agricultural production have been so successful that grain imports have been very substantially reduced.[3] Latvia, which formerly imported more grain, both relatively and absolutely, than Estonia, has even

[1] For details of the Government's control of foreign trade in Lithuania as operated through the co-operative system, see D.O.T.: *Economic Conditions in Lithuania, November 1935*, publ. 1936, p. 3.

[2] These monopolies are exercised by the co-operative societies *Võieksport* (butter), *Munaeksport* (eggs), and *Lihaeksport* (pigs and bacon). See *Estonia: Population, Cultural and Economic Life*, ed. A. Pullerits, Tallinn 1937, pp. 132–6.

[3] Owing to the partial failure of the 1936 harvest, Estonia was, however, compelled to import small quantities of grain during that year and 1937.

been able to export during recent years. The same applies to sugar, at any rate as regards Latvia and Lithuania. By 1936 Latvia was able to dispense with sugar imports entirely, while in Lithuania imports were reduced to 0·4 per cent. of the total value of imports. The corollary to the increase of agricultural production is seen in the increase of imports of chemicals, largely consisting of artificial manure, and of agricultural machinery.

The other more important result of the policy of self-sufficiency is the increase of industrialization. The effect of this movement is shown in the decrease of manufactured textile imports in all three countries, and the general increase of imports of machinery and iron and steel goods proportionately to the total. It is noteworthy, also, that in Latvia, and to a smaller extent in Estonia, there has been an increase in the proportion of imports of raw cotton and wool, and other textile fibres such as hemp and jute; even in Lithuania, by far the least industrialized country of the three, imports of raw cotton and wool amounted to 3·4 per cent. of the total in 1936 as compared with an average of under 1 per cent. in 1928–30. The increase in the proportion of coal and coke imports into Latvia, also, will be noted. Lastly, it may be mentioned that the abandonment of the gold standard by Latvia in September 1936 was followed by the reduction of Customs duties on a number of imports such as petroleum, herrings, and rice, which was dictated principally by the desire to prevent an immediate rise in the cost of living.

Changes in Exports. The economic structure of the Baltic States is not such as to facilitate important changes in the nature of their export trade over a short period. Timber, butter, bacon, and flax continued to be the staple articles of export, though there was in Estonia and Latvia a slight tendency for the proportionate value of these exports to be rather smaller than before the crisis.[1] In both countries, however, there was an increase in the proportion of flax exports, and of paper-making materials. There was also a further decrease in the proportion of exports of manufactured goods. Most of the manufactured articles exported from Estonia and Latvia before the crisis went to the neighbouring countries, which, after 1931, severely restricted their imports of such goods. The most remarkable changes are, perhaps, in Lithuania's exports, namely, the increase in the proportion of butter, bacon, and grain exports,

[1] In October 1936 Latvia decided to adhere to the European Timber Exporters' Convention. The purpose of this body, formed in November 1935, is to adjust supplies to demand at a remunerative level of prices. The other members are Austria, Czechoslovakia, Finland, Poland, Rumania, Sweden, the U.S.S.R., and Yugoslavia. For 1937 it was decided to limit exports from these countries to 4,000,000 standards, of which Latvia's share was to be 127,000 standards. During 1938 there is to be a reduction of 15 per cent. in the quota.

12. Anonymous U-4 (no date) 1938 RBI Baltic States RB1

● 439

TABLE 44. *Value of Principal Commodities Exported*

(1) *Values (in million Swiss francs)*

	Estonia				Latvia				Lithuania			
	Average 1928–30	*Year 1932*	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1932*	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1932*	*Year 1935*	*Year 1936*
1. *Foodstuffs:*												
Butter	46·3	21·6	13·6	14·0	56·3	31·0	18·5	21·6	17·0	21·6	12·6	18·3
Meat and bacon*	4·9	3·5	3·9	4·2	2·2	0·7	1·8	2·3	9·2	23·2	11·1	13·6
Live stock (including poultry)	1·0	†	2·6	4·1	†	†	†	†	28·8	6·6	5·5	10·8
Eggs	†	†	2·2	2·1	†	†	†	†	6·8	3·2	1·1	2·6
Grain	†	†	2·3	1·6	†	†	0·0	4·5	3·1	0·3	0·0	6·3
Other foodstuffs	9·2	5·5	3·6	3·7	5·0	2·1	3·9	4·1	9·3	3·2	5·2	6·0
2. *Other raw materials and semi-manufactures:*												
Timber (including sawn, veneers, &c.)	28·6	6·3	10·4	10·2	94·2	27·2	34·0	41·4	41·2	18·2	16·2	16·6
Paper-making materials‡§	8·6	7·7	7·1	6·1	3·8	1·1	2·2	2·6	1·2	0·4	0·2	0·6
Hides and skins (including leather)	3·7	0·4	1·1	1·7	8·5	1·2	2·8	3·9	7·1	1·8	2·1	1·9
Flax	10·7	2·3	5·0	6·7	16·7	5·1	8·6	14·3	17·0	4·7	7·3	12·9
Seeds	0·7	‖	0·1	0·1	7·3	2·3	3·4	4·5	7·6	3·1	4·4	5·6
3. *Manufactured goods:*												
Textiles	26·7	6·4	7·9	7·9	13·3	2·6	2·9	3·2	‖	‖	‖	‖
Paper	9·4	1·7	1·6	1·5	6·6	1·7	2·2	2·6	‖	‖	‖	‖
Rubber boots and shoes	‖	‖	‖	‖	11·4	3·3	0·6	0·8	‖	‖	‖	‖
Machinery and vehicles	1·6	0·8	0·6	0·4	12·3	12·3	0·2	0·3	‖	‖	‖	‖
Other unspecified exports	6·0	3·0	4·9	6·0	23·5	5·9	8·5	11·9	10·4	1·7	4·1	3·5
Total	157·4	59·2	66·9	70·3	261·1	96·5	98·7	118·0	158·7	98·0	78·8	98·7

1: Anonymous U-4 (no date)1938 RBI Baltic States/RBI #39

TABLE 44 (*continued*)

(ii) *Percentages*

	Estonia			Latvia			Lithuania		
	Average 1928–30	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1935*	*Year 1936*
1. *Foodstuffs:*									
Butter	29·4	20·3	19·9	21·6	18·7	18·3	10·7	16·0	18·5
Meat and bacon*	3·1	5·9	6·0	0·8	1·9	1·9	5·8	14·1	13·8
Live stock (including poultry)	0·6	3·9	5·9	†	†	†	18·1	7·0	11·0
Eggs	†	3·3	3·0	†	†	†	4·3	1·4	2·6
Grain	†	2·5	2·3	†	9·1	3·8	1·9	11·4	6·4
Other foodstuffs	5·8	5·3	5·3	1·9	3·9	3·5	5·8	6·6	6·1
2. *Other raw materials and semi-manufactures:*									
Timber (including sawn, veneers, &c.)	18·2	15·5	14·6	36·1	34·5	35·1	25·9	20·6	16·8
Paper-making materials‡	5·5	10·6	8·7	1·4	2·3	2·2	0·8	0·3	0·6
Hides and skins (including leather)	2·4	1·6	2·4	3·3	2·9	3·3	4·5	2·6	1·9
Flax	6·8	7·5	9·5	6·4	8·8	12·1	10·7	9·2	13·1
Seeds	2·4	0·3	0·1	2·9	3·4	3·3	4·8	5·6	5·7
3. *Manufactured goods:*									
Textiles	16·9	11·3	11·2	5·1	2·9	2·7	‖	‖	‖
Paper	3·0	2·3	2·1	2·5	2·2	2·2	‖	‖	‖
Rubber boots and shoes	‖	‖	‖	4·4	0·6	0·7	‖	‖	‖
Machinery and vehicles	1·0	0·9	0·6	4·7	0·3	0·3	‖	‖	‖
Other unspecified exports	3·9	7·4	3·5	8·9	8·5	10·1	6·7	5·2	3·5
Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

The figures in the tables for individual items are probably not strictly comparable as between country and country, owing to divergencies of classification, but they do afford a rough basis for comparison.

* Latvia: bacon only. † Included in 'other foodstuffs'. ‡ Latvia: wood-pulp only. § Lithuania: rags only.
‖ Included in 'other unspecified exports'.

1: Anonymous U-4 (no date)1938 RBI Baltic States 61

● 439

TABLE 45. *Value of Principal Commodities Imported*

(c) *Values (in million Swiss francs)*

	Estonia				*Latvia*				*Lithuania*			
	Average 1928–30	*Year 1932*	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1932*	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1932*	*Year 1935*	*Year 1936*
1. *Manufactured articles:*												
Textiles	18·3	7·8	6·2	7·0	54·0	12·7	13·1	13·1	31·0	15·4	12·3	17·1
Iron, steel, and metal goods	13·7	5·6	8·3	10·7	24·3	8·0	10·4	11·0	13·3	9·1	7·0	9·0
Agricultural machinery	3·5	0·4	1·3	2·2	4·3	0·8	2·1	3·2	2·2	1·3	1·6	1·3
Other machinery (including cars)	17·2	5·5	8·2	13·1	34·4	7·8	11·9	15·4	13·1	8·1	6·9	8·3
Glass	0·9	0·4	0·3	0·4	*	*	*	*	2·0	1·2	1·0	1·2
Paper and manufactures thereof	2·9	1·4	1·1	1·4	4·1	1·4	1·2	1·2	3·6	2·7	1·0	1·4
Rubber boots and shoes	1·9	0·8	0·6	0·7	2·8	*	0·9	1·2	3·0	2·5	0·5	0·5
Chemicals, dyes, and paints	8·3	3·4	3·2	3·6	18·6	3·6	11·1	10·2	4·3	3·6	4·4	4·1
Other unspecified mineral products	2·5	1·0	1·1	1·5	2·0	*	*	*	1·3	1·3	0·8	0·9
Total manufactured articles	69·2	29·3	33·3	43·6	144·5	39·3	50·7	55·3	74·9	45·2	35·5	43·8
2. *Foodstuffs:*												
Grain and flour	23·3	0·3	0·5	2·1	48·1	2·5	—	—	†	†	†	†
Sugar	5·2	2·9	2·1	2·9	12·4	2·7	—	—	8·9	2·4	0·3	0·3
Herrings	3·4	0·2	0·6	0·7	6·9	0·9	1·7	1·8	5·0	2·2	1·1	1·7
Other unspecified foodstuffs	11·3	2·1	1·9	2·6	21·5	5·1	5·1	4·1	11·3	4·2	2·7	2·8
3. *Other imports:*												
Petroleum	2·3	1·0	0·8	1·0	6·8	3·7	3·3	3·2	5·0	1·7	1·4	1·3
Other oils and rubber‡	5·5	1·9	1·6	2·3	4·7	2·7	1·5	1·6	*	2·2	1·6	1·8
Hides, skins, and leather	5·7	1·3	2·2	2·3	13·1	2·5	2·6	2·8	5·4	2·1	1·4	2·1
Manure	3·6	1·4	1·6	1·6	3·4	2·2	3·7	3·2	7·7	3·5	2·4	2·9
Coal and coke§	2·3	0·8	0·7	1·0	13·6	6·1	9·8	11·4	5·7	4·4	3·1	3·9
Cotton (raw)	14·2	3·5	5·7	6·1	7·1	2·1	5·2	5·5	*	*	1·2	1·4
Wool (raw)	1·7	0·8	1·3	1·3	3·0	1·7	1·4	1·6	*	*	1·4	1·3
Hemp, jute, and other textile fibres	2·0	0·8	0·8	0·8	3·6	0·5	1·9	2·2	*	*	*	*
Tobacco	1·6	0·7	0·8	0·9	4·2	3·2	2·3	2·3	1·7	1·2	0·5	0·8
Other unspecified imports	8·5	3·5	3·3	4·1	29·0	9·0	11·9	10·7	31·2	17·1	13·0	15·8
Grand Total	162·8	51·0	57·4	73·3	321·9	84·2	101·1	105·7	156·8	86·2	65·6	79·9

TABLE 45 (*continued*)

(ii) *Percentages*

	Estonia			Latvia			Lithuania		
	Average 1928–30	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1935*	*Year 1936*
1. *Manufactured articles:*									
Textiles	11·2	10·8	9·5	16·7	13·0	12·4	20·1	18·8	21·3
Iron, steel, and metal goods	8·4	14·4	14·6	7·5	12·3	10·4	8·5	10·6	11·1
Agricultural machinery	2·1	2·2	3·0	1·3	2·1	3·0	1·4	2·5	1·6
Other machinery (including cars)	10·6	14·2	17·9	10·7	11·7	14·6	8·4	10·7	10·3
Glass	0·6	0·5	0·5	*	*	*	1·3	1·6	1·5
Paper and manufactures thereof	1·6	1·9	1·9	1·3	1·2	1·1	2·4	1·5	1·7
Rubber boots and shoes	1·2	1·0	0·9	0·9	0·9	1·1	2·5	0·7	0·6
Chemicals, dyes, and paints	5·1	10·8	9·0	5·8	11·0	9·7	2·7	6·7	5·0
Other unspecified mineral products	1·5	2·0	2·1	0·6	*	*	0·8	1·2	1·1
Total manufactured articles	42·6	57·8	59·4	44·8	52·2	52·3	48·1	54·3	54·2
2. *Foodstuffs:*									
Grain and flour	14·3	0·9	2·8	14·9	—	—	†	†	†
Sugar	5·0	3·7	3·9	3·8	—	—	5·7	0·5	0·4
Herrings	2·1	1·0	1·0	2·1	1·6	1·7	3·2	1·7	2·1
Other unspecified foodstuffs	6·9	3·3	3·6	6·7	3·0	3·9	7·2	4·2	3·5
3. *Other imports:*									
Petroleum	1·4	1·4	1·2	2·1	3·3	3·0	3·2	2·2	1·7
Other oils and rubber‡	3·4	3·1	3·3	1·5	1·5	1·5	*	2·4	2·2
Hides, skins, and leather	2·5	3·8	3·2	4·1	2·5	2·7	3·4	2·2	2·6
Manure	2·2	2·9	2·2	1·1	3·6	3·0	4·9	3·7	3·6
Coal and coke§	1·4	1·3	1·3	4·2	9·7	10·8	3·6	4·8	4·8
Cotton (raw)	8·7	10·0	8·3	2·2	5·2	5·2	*	1·8	1·8
Wool (raw)	1·0	2·2	1·8	0·9	1·4	1·5	*	1·6	1·6
Hemp, jute, and other textile fibres	1·2	1·4	1·1	1·1	1·8	2·1	*	*	*
Tobacco	1·0	1·4	1·2	1·3	2·3	2·2	1·1	0·8	1·1
Other unspecified imports	5·3	5·8	5·6	9·2	11·9	10·1	19·6	19·8	20·4
Grand Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

The figures in the tables for individual items are probably not strictly comparable as between country and country, owing to divergencies of classification, but they do afford a rough basis for comparison.

* Included in 'other unspecified imports'. † Included in 'other unspecified foodstuffs'. ‡ Lithuania: other mineral oils only.
§ Lithuania: coal only.

1: Anonymous U-4 (no date)1938 RBl Baltic States/61

459

● 439 already mentioned. In 1936 Lithuania's bacon exports to Great Britain were considerably more than twice as large as those of the other two countries. Her butter exports to Great Britain, also, were larger than those of Estonia and Latvia. On the other hand, shipping difficulties and the fact that, in this case, her marketing organizations cannot be compared with those of Estonia and Latvia, have prevented her from obtaining a similar share in exports of timber to Great Britain. Lithuania's timber exports were proportionately less in 1936 than before the crisis. The decrease in the proportion of live stock and poultry exports between 1928–30 and 1935 is largely due to the German embargo on imports from Lithuania during 1935 as a result of the Memel dispute.

3. Distribution of Foreign Trade

The chief developments can be seen from Table 46 opposite.

Anglo-German Rivalry. The principal feature of interest during these years was the struggle between Germany and the United Kingdom for markets in this area. In this the United Kingdom was helped by the fact that (in spite of the abandonment of the gold standard), sterling was, and the Reichsmark was not, a convertible currency. It consequently became vitally important, from a monetary point of view, that the Baltic States should increase their exports to the United Kingdom by every means in their power, or at any rate prevent them from falling off as far as possible. This increased the bargaining power of the United Kingdom when the time came to negotiate commercial agreements with these countries. On the other hand while it was, of course, important to maintain exports to Germany as far as possible, the Baltic States, particularly Estonia and Latvia, had little or no interest in accumulating an export surplus with Germany, since in recent years[1] trade with that country has been conducted under clearing agreements, and any export surplus which might arise would not be at their full disposal. The same applies also to Lithuania's trade with Germany since August 1936. Details as to trade with the United Kingdom and Germany are given in Tables 47 and 48 on p. 166.

As to the result of the competition between the two countries, it is difficult to come to precise conclusions. In Estonia and Latvia the proportional increase in imports from the United Kingdom after 1931 was accompanied by a decrease in imports from Germany, but by 1936 the proportion of imports from Germany was approximately the same for both Estonia and Latvia as in 1928–30. Thus, while German exports to these two countries seem to have suffered from British competition immediately after the crisis, the German share

[1] In Estonia since 1934; in Latvia since 1932.

TABLE 46. *Distribution of Foreign Trade*

(I) EXPORTS (*Percentages of total value*)

To	*Estonia*				*Latvia*				*Lithuania*			
	1930	*1932*	*1936*	*1937*	*1930*	*1932*	*1936*	*1937*	*1930*	*1932*	*1936*	*1937*
Germany	30·1	26·2	22·5	20·6	26·6	26·2	30·8	35·3	59·9	39·1	10·8	16·3
United Kingdom	32·3	36·7	36·5	33·9	28·4	30·8	34·7	38·4	19·5	41·4	48·4	46·4
Belgium	1·9	4·5	1·6	*	6·4	6·0	5·8	5·2	2·0	1·8	5·5	3·7
Netherlands	2·2	0·6	2·2	*	6·0	1·8	3·4	3·8	3·0	2·1	2·9	4·6
France	4·2	4·7	4·7	3·2	5·2	5·5	2·2	1·8	0·7	1·6	4·5	4·7
Estonia	—	—	—	—	1·4	1·5	1·7	0·8	0·1	0·1	0·4	0·4
Latvia	1·7	3·7	1·2	1·0	—	—	—	—	6·9	2·4	1·8	0·8
Lithuania	*	*	*	*	2·7	4·2	1·0	0·8	—	—	—	—
Sweden	4·0	2·8	5·6	3·9	1·1	0·9	2·2	1·2	1·2	1·0	2·9	2·2
Norway	1·1	1·1	0·2	*	*	*	0·2	1·6	*	*	0·5	0·1
Denmark	7·7	3·8	1·9	*	1·6	1·2	0·6	0·5	1·3	0·5	2·7	1·3
U.S.S.R.	4·5	0·4	3·5	4·1	14·1	14·7	3·0	2·5	1·6	3·5	5·3	5·3
Finland	2·7	4·7	6·7	5·8	0·7	0·4	3·2	0·8	*	*	0·7	0·5
Poland	1·2	1·2	1·8	*	1·1	1·1	0·5	0·3	*	0·1	0·2	0·4
Danzig				*	0·1	0·1			*	*		
Austria	*	*	*	*	0·2	0·1	0·4	0·2	*	*	0·9	1·1
Czechoslovakia	*	*	*	*	0·4	0·4	0·4	0·2	0·1	0·1	2·7	3·4
Italy	*	*	1·2	*	0·2	0·3	0·1	0·7	0·1	0·4	0·2	0·4
Switzerland	*	*	*	*	0·2	0·3	0·7	1·0	0·2	0·2	1·0	1·6
U.S.A.	2·0	2·6	2·7	2·7	1·0	0·9	4·7	1·1	0·8	0·6	2·5	2·3
Other Countries	4·4	6·0	7·2	14·8	2·6	2·6	4·4	2·6	2·6	5·1†	4·1	2·3
Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

* Included in other countries. † Whereof 1·6 per cent. to the Argentine.

(II) IMPORTS (*Percentages of total value*)

From	*Estonia*				*Latvia*				*Lithuania*			
	1930	*1932*	*1936*	*1937*	*1930*	*1932*	*1936*	*1937*	*1930*	*1932*	*1936*	*1937*
Germany	26·3	23·0	29·7	26·1	37·2	35·6	33·4	27·1	48·5	40·3	9·0	21·6
United Kingdom	8·6	13·8	17·9	16·7	8·5	13·9	21·4	20·7	7·7	10·8	37·0	27·9
Belgium	1·9	2·3	1·8	*	1·9	3·8	3·9	3·7	2·4	4·5	7·1	7·9
Netherlands	1·7	2·1	3·5	*	1·9	1·9	1·3	2·6	3·2	2·7	4·5	4·2
France	4·2	2·8	3·0	2·2	3·2	4·3	1·7	1·7	3·0	3·4	3·1	3·6
Estonia	—	—	—	—	1·3	1·0	0·8	0·6	1·1	1·3	0·6	0·4
Latvia	3·7	4·1	3·7	1·4	—	—	—	—	4·3	4·6	1·3	1·0
Lithuania	*	*	*	*	3·1	3·1	1·6	0·7	—	—	—	—
Sweden	4·8	4·5	5·3	6·6	3·0	3·0	3·3	3·6	3·4	3·1	3·1	3·3
Norway	0·1	0·1	0·5	*	*	*	0·6	0·8	0·4	*	0·9	0·4
Denmark	3·1	1·3	2·4	*	1·9	1·9	1·4	2·2	1·7	1·2	3·0	3·3
U.S.S.R.	9·3	5·7	5·9	5·7	8·9	10·1	2·9	3·8	4·4	6·1	9·1	8·4
Finland	2·2	3·7	3·6	4·9	0·8	0·7	0·4	0·6	0·7	*	0·2	0·2
Poland	3·5	3·9	3·1	*	10·5	5·8	1·6	3·0	5·5	3·1	0·1	*
Danzig				*	0·9	0·2						
Austria	*	*	*	*	0·8	0·5	0·5	0·4	0·5	*	1·5	0·8
Czechoslovakia	*	*	*	*	3·7	1·6	0·6	1·3	5·6	7·6	4·6	3·3
Italy	*	*	0·7	*	1·1	1·1	0·5	0·6	2·0	2·4	0·2	0·7
Switzerland	*	*	*	*	1·6	1·4	0·9	1·2	1·3	1·1	1·6	1·6
U.S.A.	13·7	10·0	9·2	8·2	5·2	3·7	7·0	6·9	4·7	3·8	3·2	3·5
Other countries	13·9	13·7	13·7	23·2	7·3	9·1	13·2	14·3	2·7	6·0	10·7	8·7
Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

* Included in 'other countries'.

1: Anonymous U-4 (no date)1938 RBI Baltic States/81

●439

TABLE 47. *Trade with the United Kingdom*

	Exports to U.K.	*Percentage of total exports*	*Imports from U.K.*	*Percentage of total imports*	*Balance in favour of Estonia*
Estonia	mill. Swiss francs		mill. Swiss francs		mill. Swiss francs
Ann. average 1928–30	55·6	*35·2*	16·4	*10·0*	39·2
Year 1931	36·1	*36·6*	6·5	*7·7*	29·6
„ 1932	21·7	*36·7*	7·1	*13·8*	14·6
„ 1933	17·9	*37·1*	7·6	*18·0*	10·3
„ 1934	24·1	*40·4*	7·8	*16·4*	16·3
„ 1935	25·1	*37·5*	10·9	*19·0*	14·2
„ 1936	25·7	*36·5*	13·1	*17·9*	12·6
„ 1937	30·3	*33·9*	15·6	*16·7*	14·7
Latvia					***Balance in favour of Latvia***
Ann. average 1928–30	72·0	*27·6*	28·2	*8·8*	43·8
Year 1931	41·6	*25·4*	15·1	*8·5*	26·5
„ 1932	29·7	*30·8*	11·7	*13·9*	18·0
„ 1933	34·6	*42·5*	20·0	*21·9*	14·6
„ 1934	30·5	*35·8*	21·4	*22·6*	9·1
„ 1935	29·8	*30·2*	20·6	*20·4*	9·2
„ 1936	40·9	*34·7*	22·7	*21·4*	18·2
„ 1937	60·2	*38·4*	28·7	*20·7*	31·5
Lithuania					***Balance in favour of Lithuania***
Ann. average 1928–30	30·1	*19·0*	12·0	*7·6*	18·1
Year 1931	46·8	*33·1*	10·2	*7·1*	36·6
„ 1932	40·6	*41·4*	9·3	*10·8*	31·3
„ 1933	37·1	*44·7*	12·6	*17·1*	24·5
„ 1934	32·5	*42·6*	18·2	*26·3*	14·3
„ 1935	36·0	*45·6*	24·8	*37·2*	11·2
„ 1936	47·7	*48·4*	29·5	*37·0*	18·2
„ 1937	50·1	*46·4*	30·7	*27·9*	19·4

TABLE 48. *Trade with Germany*

	Exports to Germany	*Percentage of total exports*	*Imports from Germany*	*Percentage of total imports*	*Balance in favour of Estonia (+) or Germany (−)*
	mill. Swiss francs		mill. Swiss francs		mill. Swiss francs
Ann. average 1928–30	43·2	*27·3*	48·5	*29·7*	−5·3
Year 1931	24·0	*24·3*	25·4	*30·0*	−1·4
„ 1932	15·4	*26·2*	16·4	*32·0*	−1·0
„ 1933	10·2	*21·2*	9·4	*22·5*	+0·8
„ 1934	13·4	*22·5*	10·2	*21·2*	+3·2
„ 1935	16·3	*24·4*	15·1	*26·3*	+1·2
„ 1936	15·8	*22·5*	21·8	*29·7*	−6·0
„ 1937	27·3	*30·6*	24·3	*26·1*	+3·0
					Balance in favour of Latvia (+) or Germany (−)
Ann. average 1928–30	69·1	*26·5*	128·8	*40·0*	−59·7
Year 1931	44·2	*27·0*	65·7	*37·1*	−21·5
„ 1932	25·3	*26·2*	30·1	*35·6*	−4·8
„ 1933	21·2	*26·0*	22·5	*24·6*	−1·3
„ 1934	25·2	*29·5*	23·2	*24·4*	+2·0
„ 1935	33·1	*33·5*	27·2	*26·8*	+4·1
„ 1936	36·3	*30·8*	40·5	*33·4*	−4·2
„ 1937	55·3	*35·3*	37·6	*27·1*	+17·7
					Balances in favour of Lithuania (+) or Germany (−)
Ann. average 1928–30	93·9	*59·1*	77·4	*49·3*	+16·5
Year 1931	64·0	*45·9*	67·7	*47·0*	−2·8
„ 1932	38·3	*39·1*	34·8	*40·3*	+3·5
„ 1933	27·2	*32·8*	26·6	*36·1*	+0·6
„ 1934	16·5	*21·6*	20·1	*28·0*	−3·6
„ 1935	2·8	*3·5*	7·6	*11·4*	−4·8
„ 1936	10·7	*10·8*	7·5	*9·0*	+3·2
„ 1937	17·8	*16·5*	24·0	*21·8*	−6·2

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB1

439

in the imports of Estonia and Latvia had recovered to its pre-crisis level by 1936. In 1937, on the other hand, the imports of both countries from Germany fell off again relatively, though the proportion of imports from the United Kingdom was roughly unchanged. The case of Lithuania is affected by political considerations and is referred to below.

The British commercial agreements with each of the three Baltic States were all signed in July 1934[1] for three years, after which they were automatically prolonged unless or until notice is given to terminate the agreement by one of the two parties. The general principle of the agreements was that the United Kingdom undertook not to restrict further, except in specified circumstances, her imports of certain agricultural products, mainly bacon and butter. In return for this, each of the Baltic States agreed to import a large proportion (85 per cent. for Estonia, 80 per cent. for Lithuania, and 70 per cent. for Latvia) of their coal imports from the United Kingdom, and to reduce their duties on imports of British manufactures, mainly textiles and iron and steel goods. Special facilities also were given for imports of herrings. As the result there has been a noteworthy increase in the sterling available to the Baltic States from their trade with this country since the worst years of the depression. Trade with Germany, on the other hand, has tended relatively to be maintained at the level of the pre-crisis period, except in the case of Lithuania. Here the political situation during 1932 to 1936 gradually reduced commercial intercourse between the two countries to an almost negligible amount.[2] British trade gained most of what German trade lost. With the improvement of political relations between Germany and Lithuania it became possible, in August 1936, to conclude a clearing agreement whereby each country undertook to import goods from the other to the value of 12·5 mill. RM., or about 30 mill. lits per year. So far as the United Kingdom is concerned, the effect of this agreement can be seen from the fact that in 1937 only 27·9 per cent. of Lithuania's total imports came from the United Kingdom, as compared with 37·0 per cent. in 1936. On the other hand, the figure for 1931 was 7·1 per cent., and it seems unreasonable to suppose that all the ground gained since that date will be lost. How far German trade policy towards these countries has resembled that employed during 1936 and 1937 in Central and Eastern Europe it is at present difficult to determine. It is noteworthy, however, that in 1937 Germany's imports from Latvia exceeded her exports to that country by no less than 17·7 mill. lats, and it is possible that this may eventually lead

[1] A provisional agreement was concluded with Latvia in July 1933.
[2] See above, p. 102.

439 to results similar to those arising out of Germany's clearing agreements, for example, with Greece, Turkey, and Yugoslavia. The German clearing agreements with Estonia and Lithuania seem to be working in a normal manner.

Trade with countries other than Germany and the United Kingdom continues to be of minor importance. There was a further decrease in the relative proportion of inter-Baltic trade,[1] for reasons already noted, while there was a tendency for trade with the Scandinavian countries, particularly Sweden and Finland, to increase, no doubt because the latter two countries belong to the 'sterling bloc' and their currencies are convertible. There was a tendency also for the relative value of exports to the U.S.A. to rise, probably for the reason which encouraged exports to the United Kingdom. With most of the other countries trade is conducted by means of compensation or clearing agreements. Apart from this, the only development of importance was the decrease of Estonia's and Latvia's imports from, and the increase of Lithuania's exports to, the U.S.S.R.; in all three cases political considerations played some part; Latvia's exports to the U.S.S.R. fell off very considerably after the expiry of the commercial agreement in 1932. Political considerations, also, continued to be responsible for the low level of commercial intercourse between Poland and Lithuania.

4. The Balance of Payments

457 In Part I it was shown that during the latter part of the period 1919–30 the Baltic States were importing capital, and that there was generally a deficit on current account. The import of capital ceased in 1931, and, owing to the shortage of exchange, efforts were made to reduce the proportion borne by merchandise imports to exports. The success of these measures can be judged from Table 49 opposite.

457 As the result of the commercial policy pursued since 1931, Estonia
439 has become a country with a surplus of merchandise exports, except in unusual years like 1936 or 1937; Latvia has considerably reduced her import surplus and occasionally, as in 1932, 1936, and 1937, has an export surplus, while Lithuania has increased her export surplus. These changes have fundamentally altered the balance of payments, for the effects of the crisis greatly reduced the chief net invisible exports; and, if radical changes had not been effected in the merchandise account, there would probably have been a deficit in current account, which, as it could no longer be made good

[1] In the summer of 1937 the commercial treaty between Estonia and Latvia was denounced, and Estonia included a 'Baltic clause' in a commercial treaty then signed with Finland. For the Baltic clause, see above, pp. 127–8.

y capital imports, would probably have led in turn to currency epreciation. In the event, most years up to 1936 closed with a urplus, as can be seen from the following summarized table: 457 [439]

TABLE 49. *Balances of Payments*

CURRENT ITEMS
(In million Swiss francs)

	Estonia				*Latvia*				*Lithuania*			
	Merchandise and bullion (net)	*Interest and dividends (net)*	*Other items (net)*	*Balance*	*Merchandise and bullion (net)*	*Interest and dividends (net)*	*Other items (net)*	*Balance*	*Merchandise and bullion (net)*	*Interest and dividends (net)*	*Other items (net)*	*Balance*
1929	− 9·2	−8·2	+4·7	−12·7	−50·1	−5·9	+30·7	−25·3	+ 6·9	−2·7	+21·2	+25·4
1930	− 4·9	−9·0	+6·1	− 7·8	−15·5	−6·0	+28·7	+ 7·2	− 7·8	−5·0	+12·0	− 0·8
1931	+12·9	−6·9	+7·8	+13·8	− 3·8	−5·9	+17·0	+ 7·3	−30·4	−5·2	+13·9	−21·7
1932	+ 8·0	−7·2	+4·0	+ 4·8	+12·6	−5·3	+11·3	+18·6	+ 5·7	−4·0	+11·6	+13·5
1933	+ 7·9	−5·4	+3·3	+ 5·8	−13·8	−4·1	+ 9·3	− 8·6	+ 3·5	−2·1	+ 3·9	+ 5·3
1934	+11·6	−3·8	+1·9	+ 9·7	− 5·1	−3·8	+ 9·1	+ 0·2	− 3·7	−1·5	+ 7·2	+ 3·0
1935	+ 8·6	−3·7	+2·9	+ 7·8	+ 1·2	−4·3	+ 7·4	+ 4·3	not available			
1936	− 4·4	−2·3	+5·3	− 1·4	+12·0	−3·1	+ 5·6	+14·5	not available			

As regards the details of the chief changes since 1929, the position can be seen from Table 50 on p. 170, in which the figures for that year are compared with those for 1935 and 1936 in the case of Estonia and Latvia, and for 1934 in that of Lithuania, these being the latest years for which data are at present available.

Principal Changes. The chief change has been the reduction of net payments in respect of interest and dividends. This is due to the suspension since 1932 of instalments on War and relief debts, but also to the depreciation or devaluation of the currencies in which the other debts are expressed. There has been no default on any of the foreign debts of these States. On the contrary, interest payments were resumed in 1934, though at a lower level than was provided in the loan contract, on the foreign debt of the City of Riga.[1] A further development of importance was the substantial fall in receipts from the transit trade, from which Latvia in particular has suffered. This was due to the general decrease of foreign trade since 1929 and especially to the fall in shipments from the U.S.S.R. via Riga. The Latvian and Estonian finishing trades also suffered considerably. Lithuania was severely affected by the decline in emigrants' remittances from the U.S.A., her only invisible export of any importance.

It is improbable that there have been any material changes in the last two years. The Latvian abandonment of the gold standard in September 1936 will, of course, have increased the cost of the foreign debt service, but this must be offset by the increase of foreign trade since that date, which has almost certainly led to an increase in the

[1] See further p. 182.

433 to be the value of her exports of bacon, butter, timber, and flax which,
[457] as has been seen, are taken largely by the United Kingdom. Whether, in order to protect that market, Lithuania will be forced to realign her currency is perhaps open to question, but the fact that this step was not necessary during the crisis of 1931–5 suggests that no change is needed in her monetary policy for the moment. What is certain, however, is that her economic system has been working on too narrow a margin to permit of a rapid accumulation of capital, either in domestic currency or in *devisen*. There are no funds available for capital renewals of the more substantial kinds, or for large schemes of development. Ultimately these will be inevitable if the standard of living is not to remain exceptionally low, even for Eastern Europe; and their realization, therefore, will depend on Lithuania's ability to obtain foreign capital. In this she should be assisted by the low level of her foreign debt.

433 In Estonia and Latvia the productive system has become considerably more complex than it was before the crisis. The change, as was seen, consists largely in the increased importance of agriculture to the home consumer and the growth of industrialization. There can be little doubt as to the benefit accruing from the former of these developments in the saving of exchange on the import of cereals and other products now grown at home. So far as the latter is concerned, the advantages are, perhaps, less obvious. It is true that the volume of industrial production in both countries is probably far lower than in 1914. But before the War the industries of Estonia and Latvia were working for an assured and almost unlimited market; they now work primarily for the domestic market alone. Moreover, the lack of essential raw materials needed by industry clearly sets certain definite limits to the pursuit of self-sufficiency in this fashion. At the best, then, the saving in exchange as the result of this policy consists only in the difference between the cost of the raw materials and that of the manufactured article, and meanwhile the cost of importing the necessary machinery, &c., has been heavy, as was seen in Estonia during 1936, and still more in
● [439] 1937. Thus, however far this development is pushed, both Latvia and Estonia, it would seem, will continue to rely on their exports of timber[1] and agricultural produce. Since, as in Lithuania, their free foreign exchange is derived largely from their balance of trade with the United Kingdom, the prosperity of both countries will depend in the last resort on their ability to maintain their position in that market.

000 The result of this change in the productive system, therefore, may

[1] It should be noted, however, that the extensive felling of timber may create a serious problem for all three countries in the more distant future. See above, pp. 114–15.

The result of this change in the productive system, therefore, may 433
not be large in itself; but it has been accompanied by a development 401
which may assume considerable importance, namely the increase in the extent of control exercised by the State over the economic system, both in Estonia and in Latvia. As has been seen, the increase has been most remarkable in Latvia, where there has been a steady progress towards a form of State capitalism. The movement has been less noteworthy in Estonia, it is true, but the tendency plainly exists, and its importance should not be underestimated. Some attempt was made to indicate the potential dangers to the financial position of the State which may result from such a policy, but this is by no means its only disadvantage. For, like Lithuania, both Estonia and Latvia are unable to accumulate capital on a scale sufficient to enable them to finance large schemes of development themselves, and they will depend for this on their ability to borrow abroad. Their need to do so, moreover, will presumably be greater than that of Lithuania owing to the greater degree of their industrialization, even if their standard of living as a whole is somewhat higher. But the pursuit of a policy of State capitalism, and the arbitrary methods which it sometimes involves, does little to encourage prospective lenders.

In general, then, the economic prosperity of the Baltic States 439 ●
depends largely on their export trade, and this, in turn, depends 457
largely upon the United Kingdom. Provided, therefore, that they can maintain the commercial relations they have built up with that country since 1934, and that agricultural prices do not fall substantially below present levels, the stability of their present economic existence should be assured so long as the respective Governments can avoid the dangers of State capitalism. But this means little more, in the last resort, than that the current income of the economic system will roughly suffice to cover current outgoings, and that the standard of living will remain at or around its present level. If reserves are to be accumulated, whether to ensure against a future depression or to finance the development needed to raise the standard of living, foreign capital will be indispensable.

3: Simutis S-4 (no date) 1942 RB5 Lithuanians RB5
Baltic Countries RBL

TABLE 22

BUTTER EXPORTS IN THE BALTIC STATES[a]

(*In Metric Tons*)

YEAR	LITHUANIA	LATVIA	ESTONIA
1927	2,051	10,761	9,906
1928	2,643	13,006	11,222
1929	4,084	14,830	12,359
1930	7,357	13,430	14,066
1931	8,705	18,739	14,444
1932	9,926	18,598	12,531
1933	9,580	15,720	9,224
1934	9,671	15,701	10,118
1935	12,154	16,816	10,838
1936	14,629	17,291	10,955
1937	15,058	19,211	13,179
1938	17,413	23,464	14,732
1939	16,386	([b])	([b])

[a] C.S.B., volumes for 1927 to 1939.
[b] Figures not available.

LIVESTOCK

Livestock breeding is one of the branches of agriculture that suffered greatly in the World War. As soon as the war started in 1914 Russia requisitioned the best horses for the army. Then came the German army, which took what had been left by the Russians. Only horses unfit for army use were left.

To alleviate a great shortage of food caused by the Allied blockade the Germans requisitioned even the milk cows for slaughter. The reduction in livestock in Lithuania in 1919 as compared with 1913 was as follows: horses, 38 percent; cattle, 47.7 percent; pigs, 44 percent; sheep, 30 percent. The reduction of stock may be clearly seen from Table 23,